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LOGISTIC SUPPORT IN THE VIETNAM ERA

MONOGRAPH 10

FINANCIAL MANAGEMENT

A REPORT
BY THE JOINT LOGISTICS REVIEW BOARD

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

SS
INSTALLATIONS AND LOGISTICS

18 DEC 1970

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CHAPTER I
INTRODUCTION

1. BASIS FOR STUDY. In its Terms of Reference, the Joint Logistics Review Board (JLRB) was directed to review financial management during the Vietnam era and to give particular attention to the subject of financial controls exercised by the Department of Defense (DOD). The manner in which financial management functions are performed -- in obtaining and utilizing financial resources -- has appeared to affect significantly the capability and responsiveness of logistic systems in providing support to combat forces during the Vietnam era.

2. SIGNIFICANCE. The provision of logistic support to military forces involves the use of many resources. These resources include materiel, services, manpower, and money. The acquisition of these resources requires the use and, therefore, the management of funding. For the performance of the military functions of the DOD, direct congressional appropriations of almost \$50 billion were made in FY 64, the last full fiscal year before the beginning of the Vietnam era. By contrast, this sum increased to more than \$76 billion in FY 69. During this period the budget outlays increased from \$49.6 billion in FY 64 (equal to 8.1 percent of the Gross National Product (GNP)) to \$77.9 billion in FY 69 (equal to 8.7 percent of the GNP), which included an estimated \$28.8 billion of special support costs for Southeast Asia operations.

3. STUDY OBJECTIVES. This monograph reviews the manner in which financial management functions have been performed in the DOD during the Vietnam era and identifies the strengths and weaknesses of this management in the provision of adequate and timely logistic support. The intent is to identify those features of the financial management policies and procedures utilized during the Vietnam era that have been directly related to the events that occurred. The recommendations derived from this study should enhance the efficiency with which logistic support is provided in future military operations.

4. SCOPE. This monograph provides a general review of the operations of financial management systems in the DOD components responsible for logistic support of U.S. combat forces in Vietnam. Also reviewed are the pertinent JLRB studies of other functional areas in which budgetary or financial matters were noted as influencing the accomplishment of specific functions. The evolution and operation of the financial management systems are described briefly to provide a background for the examination of specific areas directly involved in the study objectives. In addition, the design and efficiency of the financial management systems used during the Vietnam era are evaluated. No attempt has been made to evaluate the judgment displayed in establishing objectives for financial programs and budgets or in making substantive program management decisions. Where appropriate, however, the effect of such actions on the operations of the DOD have been noted.

5. ORGANIZATION OF THE MONOGRAPH. This monograph is composed of 10 chapters in addition to this introductory chapter. Chapter II provides a general description of the financial management tools used within the DOD. Chapter III discusses the processing of budget estimates. Chapter IV addresses the use of annual appropriations for financing operating expenses. Chapter V considers the financing of inventories of expense category items through working capital funds and otherwise. Chapters VI and VII discuss the funding of investment costs, including military construction and major procurement programs. Chapters VIII, IX, and X discuss other areas of financial management, including audit activities, the use of industrial funds, and the financing of military and civilian assistance

to the host country and allied forces. Chapter XI summarizes the conclusions, observations, and recommendations of all chapters. Two appendixes provide additional information in specific areas of interest on financial management systems and procedures.

CHAPTER II
GENERAL BACKGROUND

1. INTRODUCTION

a. Financial management pertains to those procedures and techniques that are applied to the control of resources to ensure that the appropriated funds are utilized in accordance with approved programs and budgets and within any limitations that have been established.

b. The performance of financial functions was reviewed at successive organization levels of management control. Attention was given to the financial management responsibilities and controls vested at the successive levels within the Office of the Secretary of Defense and the headquarters of the military departments, one or more levels of intermediate field and fleet commands, and finally the command activity that actually performed each function for which resources were provided. Financial management systems influencing or dictating management decisions that ultimately assisted or restricted the exercise of command management procedures and program performance were identified at each of these levels.

2. TYPES OF FUNDS. The policies and procedures for financial management differ according to the purpose of the respective types of fund accounts utilized. In this monograph, these classifications of funds provide a logical basis for organizing the analysis of financial management issues that affect the logistical support forces in Vietnam and in areas in direct support of the combat effort. These classifications include operating expense funds, investment cost funds, and working capital funds. Where operating costs are concerned, the two areas of direct interest are the logistical organizations that provide support and the organizations in Vietnam or in areas of offshore support that obtain and use supplies and services. The investment cost funds are the various major procurement and military construction appropriations of the Services. The working capital accounts to which primary attention is given are the stock funds, which finance inventories of materiel pending their issue (sale) for use in programs financed by other funds. There are also industrial funds that finance the performance in industrial and commercial facilities of work that has been ordered and is paid for by applicable appropriations for the items or services furnished.

3. FINANCIAL MANAGEMENT ISSUES. In this study of the broad aspects of financial management and their application to the acquisition of resources for logistic support, four major issues warranted an in-depth investigation. In the succeeding chapters of this monograph, each issue is developed in sufficient detail to establish a basis for findings, recommendations, and/or observations. For a general overview of the content of these chapters, each issue and three specialized areas are briefly discussed in the following paragraphs.

a. Responsiveness of the Planning, Programming, and Budgeting System. This issue is discussed in Chapter III, Budget Estimates During the Vietnam Era. A detailed assessment of those high-level financial management procedures and other administrative actions used within the executive and legislative branches of the Government during the Vietnam era is provided. These procedures encompass the budget cycle, Department of Defense (DOD) budget submission for FY 65 to FY 70, the impact of budgetary actions on defense programs, and pertinent examples to cite their effects. National policies relating to financial management actions and decisions are examined in an effort to assess their impact on DOD programs. A detailed explanation of the Planning, Programming, and Budgeting System used by the DOD during this era is included in Appendix A.

b. Control and Cost Accounting for Operation Costs. Chapter IV, Financing of Operational Expenses, is devoted to an analysis of this issue. This chapter discusses service funding under the Operations and Maintenance (O&M) appropriation, the extent to which financial management controls were introduced into SE Asia by the Services, and the significance of such controls during combat operations. Even though a significant segment of O&M funds was utilized to defray the costs of civilian personnel and contractual services, the discussion is focused primarily on the dollar costs of financing consumable materials required to support combat units, combat support units, and combat service support units in a combat environment. Financial controls associated with that type of expenditure were traced directly to the initiation of a supply action at the consumer or operational level of command. Consequently, the extent of interface between the supply and financial systems below the stock fund level within the respective Services was, of necessity, included. Also included is a detailed description of the management of O&M funds within each of the Services and a discussion of the differences in concepts of the management of funds and materiel resources.

c. Use of Stock Fund Financing for Inventories. This issue is addressed in Chapter V, Funding of Inventories of Expense Items. The chapter describes the concepts of working capital funds and the DOD policy and rationale for the use of these stock funds to finance inventories. An analysis of the capitalization of stock funds during the period FY 65 - FY 69 is provided. Included is a detailed discussion on the manner in which the Services and Defense Supply Agency (DSA) stock funds were utilized during the Vietnam era, as well as a review of their related financial management structures. To evaluate the application of management controls to stock funds, the concepts and the procedures for administering financial programs for stock funds are presented, together with the history of stock fund programming actions between FY 65 and FY 69.

d. Financing of Investment Costs--Military Construction and Major Item Procurement. Chapters VI and VII treat investment costs associated with the acquisition of major items of equipment, ammunition, and real property. Investment costs include major end items of equipment and major secondary items. These item categories are subject to continuing centralized, individual-item management and asset control throughout all command and support echelons throughout their in-service life. Construction, including the cost of land and rights therein, are also investment costs for program-budgetary purposes. Since these chapters interface to a great extent with the Construction Monograph and the Procurement and Production Monograph, an attempt has been made to avoid duplication. Accordingly, the planning and programming phases of the military construction and major item procurement programs have been discussed only to the degree necessary to develop a sound basis for evaluating budgeting and financial procedures. Conclusions resulting from the analysis of military construction strongly support several recommendations concerning changes to procedures that would simplify and ensure more responsive construction support during contingency operations in a combat area. In the area of procurement of major items of equipment, the facts substantiate that the financial procedures used during the Vietnam era were sound and that any deficiencies were the result of other management decisions and not the financial system.

e. Specialized Areas. Chapters VIII, IX, and X, Auditing, Industrial Funds, and Military Assistance Program (MAP), contain a discussion of financial management procedures in these specialized areas. Although no specific issue has been identified or associated with these procedures, it was considered appropriate to study the financial management systems peculiar to these areas of logistic support to evaluate their effectiveness in providing logistic support to the forces in the combat theater.

(1) Included within Chapter VIII is a survey of auditing operations in the combat theater during the Vietnam era and a summary of selected audit reports that highlight the level of audit effort.

(2) Industrial fund financing procedures are discussed in Chapter IX with a brief description of how industrial facilities are managed by each Service, the policies and procedures that govern these functions, and an explanation of the administrative controls under which they must operate.

(3) Chapter X includes a brief history and background of the MAP prior to March 1966, and the transition to The Military Assistance Service Funded (MASF) program and procedures subsequent to that period in time. Strengths are confirmed in the findings concerning the financial management procedures in the MASF program, and gains in management effectiveness as the result of controlled audit operations in a combat theater. The review of industrial fund financing supports a recommendation that industrial-funded activities be excluded from civilian personnel ceiling controls to permit greater flexibility in adjusting personnel strengths to fluctuating workloads.

CHAPTER III

BUDGET ESTIMATES DURING THE VIETNAM ERA

1. CONTENT. This chapter of the Financial Management Monograph covers the Department of Defense (DOD) budget estimates during the Vietnam era. It discusses in detail the budget cycle, budget schedules, and financial management tools in use during this era, and it analyzes how these financial management tools were applied and the effect on DOD programs.

2. BUDGET CYCLE

a. General. The budget cycle is the administrative process that encompasses the period from the budget concept to the signing of an appropriation act. It is a tedious and complex procedure involving many decisions and administrative actions by numerous individuals throughout the Services, defense agencies, the Office of the Secretary of Defense (OSD), the Bureau of the Budget (BOB), the Congress, and the President. In theory, each budget cycle is designed to cover approximately 18 months, however, two full years may elapse before a budget becomes an appropriation act. This delay occurs when the legislative branch does not pass the act until midway in the fiscal year. The delay is one of continuing concern to officials in both the executive and the legislative branches of the Government.

b. Initial Steps in the Budget Cycle

(1) An integral part of the budget cycle is the planning and programming that must be accomplished in preparation for the development of the budget estimates. These procedures were standardized for all of the Services and the defense agencies during the early months of the Kennedy Administration. In 1961, under the direction of the Secretary of Defense, the formal Planning, Programming, and Budgeting System (PPBS) was implemented. Certain modifications have been made throughout the ensuing years. The latest change became effective on 1 January 1970. A detailed description of the entire PPBS is presented in Appendix A.

(2) As the transition from programming to budgeting evolves, the first steps in the preparation of the DOD budget are taken in the executive branch by the various Services and defense agencies. During the spring of the year, the individual Services and defense agencies receive logistic and budget planning guidance from the Secretary of Defense. This guidance establishes the basis for the initial preparation of the budget. Frequent revisions to the budget are made during the summer and fall months, as directed by the Secretary of Defense. In the fall of the year, the Services, defense agencies, and OSD, in conjunction with the BOB, conduct budget reviews and hearings within the executive branch to determine the validity, necessity, and adequacy of the budget requests. Immediately thereafter, the BOB adjusts the DOD budget and the other Government agencies budgets to best carry out the policy determinations and national objectives of the current administration as determined by the President. Near the end of the calendar year, the budget document is prepared in final form and sent to the Government Printing Office for printing.

c. Congressional Action

(1) Submission to the Congress. Upon submission of the President's Budget to the Congress in January it is referred to the Committees on Appropriations. The committees assign the various parts of the budget to their respective subcommittees for review, adjustment, and approval. To facilitate the subcommittees efforts, the individual military departments submit

justifications to substantiate the requirements and the dollar amounts requested. These justification documents are voluminous, many in number and more detailed than in the budget document itself.

(2) Congressional Hearings. Following submission of the budget document to the Congress and the justifications of the budget to the subcommittees, the congressional hearing procedure is initiated. The Senate and the House Appropriation Subcommittees set up schedules for DOD program and budget hearings. These hearings generally begin with the presentation of a prepared statement by the Secretary of Defense before the House and Senate committees. The Secretary's statement is designed to summarize the entire defense budget for the congressional committees. Within the prepared text of the statement, the Secretary of Defense outlines the approach to the preparation of the fiscal year budget, the programs for the follow-on years, an assessment of the international situation related to military policies and programs, and the defense program relationship to the national economy. Subsequent sections of the statement address the type of forces (such as Strategic Retaliatory, Continental Air and Missile Defense, General Purpose, Airlift and Sealift, Reserve and National Guard, Research and Development, General Support, Civil Defense) and the requirement and estimated costs for each category. Following the presentation by the Secretary of Defense, the Chairman of the Joint Chiefs of Staff presents a statement describing the military readiness posture. These officials are followed in turn by the Secretaries of the military departments and the Service chiefs. Subsequent to these formal appearances, representatives are called from each of the Services and defense agencies to appear before the subcommittees to justify their respective programs and budgets. In general, nondefense subcommittee hearings are held in open session with the public invited. However, hearings on defense budgets that involve discussions concerning the national security are held in executive session. An attempt is made to keep the public informed by releasing unclassified versions of the testimony presented. Hearings on appropriation bills range from a minimum of a few days to a maximum of several weeks, although they may extend over a period of months depending on the magnitude of the submission and the complexity of the defense program under scrutiny.

(3) Markup and Approval of Appropriation Bill. At the conclusion of the hearings, the appropriation bill is marked up by the subcommittee. It is during this markup procedure that the subcommittee members, in executive session, decide what adjustments, if any, will be made to the submission. Committee prints of the bill and report are developed by the staff under the supervision of the subcommittee and are submitted to the full appropriations committee. Once the full committee has agreed to the items and amounts to be contained in the bill and report, they are transmitted to the parent body, House or Senate as the case may be.

(4) Joint House and Senate Action. Appropriation bills are first considered in the House. Following debate and agreement in the House, the bill is sent to the Senate where it is referred to the Senate Committee on Appropriations. It is studied by the subcommittee charged with the responsibility for the bill. The subcommittee takes action and makes changes that are deemed appropriate. Subsequent to the subcommittee processing, the full committee and Senate take action comparable to that previously described for the House. If differences exist in the appropriation bill passed by both houses of Congress, conferees are appointed to resolve the differences. Upon agreement and approval by both houses, congressional action on the bill is concluded.

d. Presidential Action. The bill is then forwarded to the President for his approval. With his signature it becomes a public law and the Treasury Department and the BOB are empowered to release funds in support of defense operations during the fiscal year.

3. DEPARTMENT OF DEFENSE BUDGETS FOR FISCAL YEARS 1965-70. During the period FY 65-FY 70, the Service budgets were in a constant process of change. The DOD appropriations were all enacted after the start of the fiscal year. The President's budget submissions were considerably smaller than the Service's budget requests, and many supplemental appropriations were required to finance the Vietnam conflict. Specific budget submissions and appropriations for the period FY 65-FY 69 are provided in the following tables. Table 1 portrays the President's budget submission and appropriation dates. Table 2 provides a comparison of the

Service requests with the President's budget and appropriations. Table 3 lists the supplemental appropriations required during this period, and Table 4 shows the estimated outlays for SE Asia from FY 65 to FY 69. The President's budget for FY 70 did not provide an estimate of special support for SE Asia operations.

TABLE 1

PRESIDENT'S BUDGET SUBMISSION AND APPROPRIATION DATES

Fiscal Year	President's Budget Submission	Appropriation[2]
1965	21 January 1964	19 August 1964
1966	25 January 1965	29 September 1965
1967	24 January 1966	15 October 1966
1968	24 January 1967	29 September 1967
1969	24 January 1968	17 October 1968
1970	15 January 1969[1]	29 December 1969

[1] Amended on 15 April 1969.

[2] The amounts in the appropriations are shown in Table 2.

Source: Mr. Sheldon W. Taylor, Office of the Assistant Secretary of Defense (Comptroller), FAD Tables, 14 January 1970.

a. Budget Flexibility. When the appropriation bill becomes law, it establishes the limit of the obligations that the executive branch may incur in carrying out the programs covered by the appropriation. The President, however, acting through the BOB, may release these funds to the departments and agencies or place them in reserve. This is done by means of apportionments, which are BOB allowances providing obligational authority for a specific period. Section 3679 of the Revised statutes, as amended by Section 1211 of Public Law 759, 81st Congress states, in part as follows:

> "(c) Except as otherwise provided in this section, all appropriations or funds available for obligation for a definite period of time shall be so apportioned as to prevent obligation or expenditure thereof in a manner which would indicate a necessity for deficiency or supplemental appropriations for such period; and all appropriations or funds not limited to a definite period of time, and all authorizations to create obligations by contract in advance of appropriations, shall be so apportioned as to achieve the most effective and economical use thereof. As used hereafter in this section, the term 'appropriation' means appropriations, funds, and authorizations to create obligations by contract in advance of appropriations."

Appropriation administrators are given the responsibility for execution of the apportionments. Following apportionment of funds by BOB, further limitations or controls on funds may be imposed by the Secretary of Defense or the Service Secretary. These controls are administrative and are established to help prevent violations of Section 3679, Revised Statutes, and DOD

TABLE 2

DEPARTMENT OF DEFENSE COMPARISON OF SERVICE REQUEST
WITH PRESIDENT'S BUDGET AND APPROPRIATIONS
(New Obligational Authority in Millions of Dollars)

	FY 65			FY 66		
Activity	Service Submission	President's Budget	Appropriation	Service Submission	President's Budegt	Appropriation
Military Personnel	$15,082.7	$14,597.0	$14,568.0	$15,322.8	$14,560.0	$14,600.3
Operations & Maintenance	13,500.4	12.396.0	12,313.5	13,259.9	12,471.6	12,492.6
Procurement	19,300.5	13,756.0	13,422.0	16,104.5	11,411.7	11,404.0
Research, Development, Test, and Evaluation	7,987.7	6,722.0	6,448.5	7,688.8	6,708.8	6,569.5
Military Construction	2,241.4	1,168.0	939.8	1,800.9	1,313.4	1,090.8
Family Housing	772.2	711.0	631.2	770.7	735.6	665.8
Civil Defense	559.5	358.0	105.2	371.8	193.9	106.9
Other Special Foreign Currency Programs	—	—	—	—	—	—
Revolving and Management Funds	—	—	—	—	—	—
Budget Concept Adjustments	—	—	—	—	—	—
Emergency Funds, Southeast Asia	—	—	—	—	1,700.0[1]	1,700.0
Total	$59,444.4	$49,708.0	$48,428.2	$55,319.5	$49,095.0	$48,629.9

[1] Budget Amendment, Senate DOC 405, 4 Aug 1965.

TABLE 2 (Continued)

Activity	FY 67 Service Submission	FY 67 President's Budget	FY 67 Appropriation	FY 68 Service Submission	FY 68 President's Budget	FY 68 Appropriation
Military Personnel	$19,475.6	$18,675.7	$18,731.0	$22,322.0	$22,001.0	$21,781.5
Operations & Maintenance	17,641.1	15,700.1	15,703.3	22.180.7	19,136.0	18,856.1
Procurement	24,018.0	16,408.2	16,641.8	34,218.3	22,917.0	22,000.8
Research, Development, Test, and Evaluation	7,885.5	8,905.4	6,984.0	8,408.4	7,273.0	7,108.6
Military Construction	1,865.5	593.0	472.4	2,503.2	2,123.0	1,402.1
Family Housing	796.3	521.9	509.2	925.9	814.0	691.3
Civil Defense	193.2	133.4	101.1	163.4	111.0	86.1
Other Special Foreign Currency Programs	—	—	7.3	132.7	16.0	11.2
Revolving and Management Funds	—	—	—	1,398.7	241.0	178.4
Budget Concept Adjustments	—	—	—	—	—	—
Emergency Funds Southeast Asia	—	—	—	—	—	—
Total	$71,875.3	$58,937.7	$59,148.1	$92,253.3	$74,632.0	$72,116.1

TABLE 2 (Continued)

Activity	FY 69 Service Submission	FY 69 President's Budget	FY 69 Appropriation	FY 70 Service Submission	FY 70 President's Budget	FY 70 Appropriation
Military Personnel	$47,074.5[2]	$23,014.0	$22,571.6	$25,047.2	$24,384.2	$23,569.8
Operations & Maintenance		22,787.0	21,765.0	25,167.4	21,941.0	20,860.1
Procurement	35,981.2	23,254.0	19,981.9	35,659.3	23,240.9	17,841.8
Research, Development, Test, and Evaluation	9,972.6	8,006.2	7,551.3	9,549.9	8,174.1	7,368.8
Military Construction	4,963.2	1,430.0	1,168.5	2,827.2	1,948.8	905.5
Family Housing	1,150.9	601.5	589.9	948.0	617.5	602.7
Civil Defense	159.7	76.8	60.5	125.1	73.3	69.1
Other Special Foreign Currency Programs	19.6	12.8	—	17.2	—	—
Revolving and Management Funds	—	—	—	—	—	—
Budget Concept Adjustments	—	—	—	-119.0	-242.3	-315.0[4]
Emergency Funds Southeast Asia	—	—	—	—	—	—
Total	$99,321.7	$79,182.3	$73,688.7	$99,222.3	$80,137.5[3]	$70,902.8

[2] Service submission to the Congress was for Military Personnel and Operations and Maintenance.

[3] Reduced to $77,131.00 by Budget Amendment of 15 April 1969.

[4] Estimated.

Source: Mr. Sheldon W. Taylor, Office of the Assistant Secretary of Defense (Comptroller), FAD Tables, 14 January 1970.

TABLE 3

DEPARTMENT OF DEFENSE SUPPLEMENTAL BUDGET ESTIMATES AND APPROPRIATIONS

Fiscal Year	Request Date	President's Budget Estimate	Appropriation Date	Appropriation
1985	2 Mar 1965	$ 230,394,000	30 Apr 1965	$ 230,394,000
1965	4 May 1965	700,000,000	7 May 1965	700,000,000
1966	19 Jan 1966	12,345,719,000	25 Mar 1966	12,345,719,000
1966	8 Mar 1966	863,521,000	13 May 1966	863,521,000
1967	24 Jan 1967	12,275,870,000	4 Apr 1967	12,196,520,000
1967	23 Mar 1967	601,130,000	29 May 1967	590,130,000
1968	11 Mar 1968	167,412,000		
1988	21 May 1968	3,900,000,000	9 July 1968	4,215,692,000
1968	21 May 1968	531,399,000		
1968	22 May 1968	28,000,000		
1969	9 Oct 1989	176,000,000	17 Oct 1969	296,000,000*
1989	17 Jan 1969	3,011,900,000	22 July 1969	2,532,421,420
1969	27 Mar 1989	-140,700,000		
1970	—	—	—	—
Total		$34,690,645,000		$33,970,397,420

* $120,000,000 requested in the President's Budget on 29 January 1968 was included in the Supplemental Appropriation for Foreign Military Credit Sales, Executive.

Source: Mr. Sheldon W. Taylor, Office of the Assistant Secretary of Defense (Comptroller), FAD Table, 14 January 1970

TABLE 4

ESTIMATED SPECIAL SUPPORT FOR SOUTHEAST ASIA OPERATIONS

	Outlay (in millions of dollars)	
Fiscal Year	Defense-Military Excluding SE Asia	Special SE Asia
1965	$46,070	$ 103
1966	48,597	6,094
1967	47,333	20,557
1968	50,826	26,839
1969	48,978	29,192

Source: Department of Defense Extract, The Budget of the United States, Fiscal Year 1970, p. 62.

Directive 7200.1.[1] This law prohibits overobligation of an appropriation, apportionment, reapportionment, or a subdivision of funds (e.g., allotments and suballotments). It does not, however, make the budget execution completely rigid, since certain areas of flexibility may be employed to meet changing requirements during a fiscal year. The following paragraphs discuss how these areas were employed during the Vietnam era.

(1) Exemption from Apportionment

(a) The DOD Appropriation Act for FY 65 contains the following:

"Sec. 512 (a) During the current fiscal year, the President may exempt appropriations, funds, and contract authorizations, available for military functions under the Department of Defense, from the provisions of subsection (c) of section 3679 of the Revised Statutes, as amended, whenever he deems such action to be necessary in the interest of national defense."[2]

(b) A similar provision for exemption from apportionment has been continued in the DOD Appropriation Acts for FY 66 to FY 70. The President exercised the authority granted to him by section 512 in FY 65 to FY 70. This allowed the Services to obligate total year funds during less than the 12-month period, as necessary to meet additional requirements. These actions led, in part, to Supplemental Appropriation Acts in the period FY 65-FY 69.

(2) Emergency Fund, Defense and Transfer Authority. The Department of Defense Appropriation Acts for FY 65 to FY 70 provided a budget for the Research, Development, Test, and Evaluation (RDT&E) Appropriation under Emergency Fund, Defense (see Table 5).

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[1] Department of Defense Instruction 7000.3, Classification of Certain Provisions of DOD Directive 7200.1, Administrative Control of Appropriations Within the Department of Defense, 20 March 1957, as amended, 27 July 1965.

[2] Appendix to the Budget of the United States Government for Fiscal Year 1965, p. 184.

TABLE 5

EMERGENCY FUND APPROPRIATIONS

Fiscal Year	Amount
1965	$125,000,000
1966	125,000,000
1967	125,000,000
1968	100,000,000
1969	50,000,000
1970	75,000,000

These funds were transferable by the Secretary of Defense, subject to approval by the BOB, to any appropriate military function, t.e., RDT&E (or procurement of related production). In addition to these funds, the Appropriation Acts authorized that an additional $350,000,000 derived by transfer from funds available for obligation in other appropriations in the given fiscal year; $150,000,000 of these funds for the regular Emergency Fund purposes, and $200,000,000 for other purposes vital to the security of the United States.

(3) Section 3732, Revised Statutes (41 U.S. Code 11). This section as amended tn the DOD Appropriation Act, 1967 (sec. 612), reads as follows:

> "(a) No contract or purchase on behalf of the United States shall be made unless the same is authorized by law or is under an appropriation adequate to its fulfillment, except in the Departments of the Army, Navy, and Air Force for clothing, subsistence, fuel, quarters, transportation or medical and hospital supplies, which, however, shall not exceed the necessities of the current year.
>
> "(b) The Secretary of Defense shall immediately advise the Congress of the exercise of the authority granted in subsection (a) of this section, and shall report quarterly on the estimated obligations incurred pursuant to the authority granted in subsection (a) of this section."[3]

In addition to this authority, the DOD Appropriation Act for FY 66 (Sec. 512) contains the following provisions:

> "(b) Upon determination by the President that such action is necessary, the Secretary of Defense is authorized to provide for the cost of an airborne alert as an excepted expense in accordance with the provisions of Revised Statutes 3732 (41 U.S.C. 11).
>
> "(c) Upon the determination of the President that it is necessary to increase the number of military personnel on active duty beyond the number for which funds are provided in this Act, the Secretary of Defense is authorized to provide for the cost of such increased military personnel, as an excepted expense in accordance with the provisions of Revised Statutes 3732 (41 U.S.C. 11)."[4]

Similar provisions are contained in the DOD Appropriation Acts for FY 66 to FY 70. These authorities provided the President and the Secretary of Defense some flexibility in meeting changing requirements and Section 3732 provisions were invoked in FY 66 and FY 69.

[3] Department of Defense Appropriation Act, 1967, 15 October 1966.

[4] Appendix to the Budget of the United States Government for Fiscal Year 1965, p. 184.

(4) Reprogramming of Appropriated Funds Within an Appropriation

(a) The DOD Appropriation Acts for FY 66 to FY 70 place limitations on transfer authority as discussed in paragraph 3a (2). No other restrictions were placed on reprogramming actions by the DOD Appropriation Acts. Department of Defense Directive 7250.5 of 4 March 1963 states the major policies of the DOD with respect to reprogramming proposals and actions relating to the appropriation accounts covered by the DOD Appropriation Acts. The reprogramming policy is stated in the referenced Directive as follows:

> "The Congressional Committees concerned with the Department of Defense Appropriation Acts and the authorizing Acts related thereto and the Department of Defense have generally accepted the view that rigid adherence to the amounts justified for budget activities or for subsidiary items or programs may unduly jeopardize the effective accomplishment of planned programs in the most business-like and economical manner, and the unforeseen requirements, changes in operating conditions, revisions in price estimates, wage rate adjustments, etc., require some diversion of funds from the specific purposes for which they were justified. Reprogramming measures, developed in consultation with the Committees, are both necessary and desirable, and will provide a firm basis for retention of Congressional control over the utilization of Defense appropriations by assuring that the Congressional intent is carried out while, at the same time, providing a timely device for achieving flexibility in the execution of Defense programs."

(b) Additional policies relative to reprogramming are contained in the Directive and these policies are implemented by the DOD Instruction 7250.10 of 5 March 1969. It establishes approval requirements and related operating procedures designed to ensure that the responsible officials respect the integrity of the justifications presented in support of fund authorizations and budget requests. This also provides timely information with respect to any significant deviations from approved programs. The reprogramming authority, provided by this Instruction, was utilized extensively during the Vietnam era to meet new requirements in support of the SE Asia efforts. These reprogramming actions did not increase the total obligational authority within an appropriation. They merely diverted appropriated funds from the specific purposes for which they were justified (purposes for which they might still have been completely justified) to purposes considered to be of higher priority. These actions often led to the solution of problems but created other problems.

(5) Critical Item Procedures. During the Vietnam era the Secretary of Defense occasionally approved Service procurement of critical items that were pending approval in a Supplemental Appropriation Request prior to the passage of the Supplemental Appropriation Act. This allowed the Services to meet certain critical requirements for SE Asia.

(6) Emergency Fund Southeast Asia. The DOD Appropriation Acts for FY 65 to FY 70 provided funds under this appropriation as shown in Table 6. These funds were made available to the Secretary of Defense for transfer to any appropriation for military functions under the DOD to meet SE Asia requirements.

4. IMPACT OF BUDGETARY ACTIONS ON DEPARTMENT OF DEFENSE PROGRAMS— FISCAL YEARS 1965-70

a. Budget Policy. The nature of the Vietnam involvement probably was the reason for no visible constraints being placed on the national economy. The extent of the involvement never reached the point where constraints such as wage and price controls and rationing were imposed, and it appeared to be the intent of the President to avoid such a level of conflict. Normal budgeting procedures were employed and strict budget planning restrictions were applied within DOD. These restrictions were based on the following:

(1) National Policy

(a) To limit and control extent of SE Asia involvement and level of effort in operations.

(b) To control extent of financial impact on.

1. National economy (i.e., inflation, taxes, balance of payments, etc.)

2. Competing Federal programs (i.e., welfare, health, urban renewal, highway construction, etc.)

TABLE 6

SOUTHEAST ASIA EMERGENCY FUND APPROPRIATIONS

Fiscal Year	Amounts
1965	$ 700,000,000 (Supplemental Request)
1966	1,700,000,000 (Regular Budget)
1967	0
1968	3,750,950,000 (Supplemental Request)
1969	0
1970	0

(2) Termination of Combat Operations in Southeast Asia. During the early years of the Vietnam conflict, the Secretary of Defense requested DOD appropriations based on an assumption of an early end of the conflict. The Secretary of Defense said: "But, again, I want to remind you that for purposes of developing our FY 1966-67 budget requests we have assumed that combat operations in SE Asia will continue through June 30, 1967. If it later appears that combat will continue beyond that date, more funds will be needed for FY 67."[5]

(3) Improved Management of DOD Resources. The Secretary of Defense policy dictated the purchase of only what was needed and deferred full requirements determination as a basis for funding and procurement until the last possible date. The latter was accomplished by employing the end-of-war concept, accepting certain risks, partial funding of known requirements, depending on supplemental appropriations, and requiring reductions in or cancellations of lower priority programs.

(4) Reducing Support for Non-Southeast Asia Areas. The reduced support provided for non-Southeast Asia areas resulted in deferring maintenance and modernization. The DOD budgeting policy was designed for a war that was closely and centrally managed. Rigid in-country personnel ceilings were imposed on SE Asia and operating levels were controlled at the seat of government. There was an underlying policy to avoid overfunding generating excesses by the end of the war. Industrial production was programmed at levels only slightly higher than the current

[5] U.S. Congress, House, Posture Statement, Statement by Secretary of Defense before the Armed Services Committee on the Fiscal Years 1967-71 Defense Program and 1967 Defense Budget, 8 March 1966, p. 98.

consumption rate in SE Asia. Congressional policy of controlling expenditures of the Federal Government also had a marked impact on DOD budgets. This policy was exemplified by the Revenue and Expenditure Control Act of 1968 (Public Law 90-364), which "provided for specific limitations on budget authority and outlays in 1969, representing—for the programs covered—reductions of $10 billion and $6 billion, respectively, below the levels in the 1969 budget sent to the Congress on January 29, 1968."[6] The DOD was assigned half of the $8 billion expenditure reduction.

b. Delays in Appropriations. A contributing factor to delay in the passage of major appropriation bills has been the continual increase of programs that require authorizing legislation before appropriations can be considered. As an example, a requirement has been imposed on DOD appropriations for separate authorization for the procurement of aircraft, missiles, tracked vehicles, RDT&E, and weapons previously not required. The need for additional authorizing legislation has been prompted by other members of the legislative branch in an attempt to exercise a voice in defense affairs. The increase in Federal programs related to national security and domestic programs also contributed to delay in the passage of appropriation bills. In the last 32 years Federal expenditures have risen from $6.8 billion in FY 38 to an estimated $183.7 in FY 69. Despite this rapid increase in Federal expenditures and the greater complexity of programs to be considered, i.e., sophisticated weapons systems, space exploration, urban development, the congressional procedures to authorize programs and appropriate funds remain essentially the same as those practiced 30 to 40 years ago.

c. Impact in Delays in Appropriations. The financial management procedures (such as reprogramming actions) that had to be employed because of the delays in appropriations did prevent some of the support from being provided in a timely manner. However, all Services reported that the support for SE Asia was not adversely affected by delays in appropriations. The impact of delays on other DOD operations, however, was continuous throughout the Vietnam era and is discussed in the succeeding paragraphs.

(1) For each of the fiscal years 1965 to 1970, the Congress passed a continuing resolution that permitted Government agencies to continue functioning on a interim basis and at the same rate as authorized for the previous fiscal year. In addition to the relief granted by the continuing resolution, use of the Critical Items Procedures, Exemption from Apportionment, invocation of Section 3732, Revised Statutes (41 USC 11) and Reprogramming of Approprtated Funds within an Appropriation (all discussed in paragraph 3) were employed in an effort to ensure against adverse affects of late appropriations.

(2) Despite these procedures that were employed to offset the effects of delayed appropriations, the Services experienced a chaotic and uncertain period with each delay. As stated previously, support for SE Asia was provided, through the process of reprogramming actions; but, in many cases, it was at the expense of other important programs.

(3) The impact of such delays in the passage of appropriation bills cannot be measured precisely. Nevertheless, certain positive and specific examples can be cited that demonstrate the adverse effects. This situation seriously interferes with planning projections and makes for inefficient and uneconomical utilization of resources. Compounding this problem is the complex task of attempting to manage different phases and funds for programs of several concurrent years. For example, (a) in the spring the Services justify the budget for the next fiscal year to the Congress, (b) manage operations under the appropriations of the current year, and (c) initiate the preparation of the budget for the fiscal year after next which must be submitted to the Secretary of Defense on 1 October. This results in an especially critical condition, since the Services are attempting to justify budget requests for the next fiscal year when they are unaware of funding levels established for the current year.

(4) Probably the most trying problems that arise within the Services are experienced in the area of construction and procurement of major equipment. Although planning

[6] Executive Office of the President, Bureau of the Budget, The Budget In Brief, Fiscal Year 1970, p. 16.

estimates are calculated with great care and provisions are made for cost increases, delayed appropriations often complicate and delay the award of the contract and result in substantial escalation of procurement costs plus additional management effort and a duplication of the tedious review and justification process. Not only are these real costs in hard dollars, but they also impose an increase in additional work for key officials who could devote their time and effort to more productive endeavors.

d. Funding Levels

(1) All Services reported that adequate funds were made available to support their SE Asia efforts. They also reported that these funds often came from non-SE Asia areas of their budgets. The Air Force reported that: "...the overall impact of SE Asia on the Air Force budget resulted in a low level of major equipment and plant modernization since 1965, particularly in the strategic offensive and defensive aircraft programs. Modernization programs in all accounts were stretched or deferred... Military Construction, including military family housing, replacement/modernization programs have been deferred."[7]

(2) The Air Force further stated, "To adequately fund the Vietnam requirements to fight a war has made it necessary for the entire Air Force to tighten its belt and perform with reduced funding. Any increased requirements either unprogrammed or simply unfunded, necessary for the support of the Air Force Units in Southeast Asia have been funded."[8]

(3) The Air Force made deferrals elsewhere as necessary to fund Vietnam until additional funding was obtained through supplemental appropriations. "...Tightening our belts throughout the Air Force for Vietnam has resulted in intensified management of assets. Probably the most obvious impact of less funding outside Southeast Asia is the deferral of Civil Engineering Projects by contract which increases the depreciation of our investments at a greater than anticipated rate."[9]

(4) The Air Force also reported that, "Prior to the beginning of the Southeast Asia buildup in Fiscal Year 1965, the annual program level of the Other Procurement Air Force Appropriation averaged $900 to $1,100 million. The bulk of these funds were required to maintain the force in being, training, etc., with the balance used to modernize the force, particularly tactical operations supporting the reoriented strategy of flexible response which was introduced early in the Kennedy Administration. Significant beginnings were made in development and initial procurements of Tactical Air Control ground environment, advanced Reconnaissance data correlation and interpretation equipment, Strike Command, Command and Control systems and bare base equipment. Provisions were also made to introduce newer equipment into Air National Guard and Reserve units. As operations built up in SEA, understandably, CONUS units and other Overseas Commands including the Guard and Reserve bore the brunt of the initial equipment deployment to SEA in that such units were in many cases, stripped of unit equipment which was then diverted. During the phase of heavy expenditures in munitions and other equipment related to combat operations, modernization was almost totally deferred, along with normal replacement of existing equipment due to age, condition and reparable cost effectiveness. Further complicating this is the uncertainty of how much of the material and equipment now in Vietnam and surrounding areas will be in fact returned to the CONUS or other Air Force units, and in what condition is this gear, how much continuing support will be rendered to the Vietnamese assuming some combat levels are maintained and how will such support be funded."[10]

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[7] Chief, Budget Correlation Branch, Financial Policy and Analysis Division, Directorate of Budget, Headquarters, U.S. Air Force, Memorandum For Record, subject: Briefing Discussion for Joint Logistics Review Board (Financial Management Team, Task Force B), 9 December 1969.

[8] Ibid., Attachment 3, p. 4.

[9] Ibid.

[10] Ibid., Attachment 4, p. 1.

Probably no other appropriation shows the deferral of modernization during the FY 65 - FY 70 period as clearly as the Shipbuilding and Conversion, Navy (SCN), which included very little support for SE Asia. The SCN Appropriations for this period are indicated in Table 7.

TABLE 7

SHIPBUILDING AND CONVERSION APPROPRIATIONS

Fiscal Year	New Obligational Authority
1965	$1,905,376,000
1966	1,522,156,000
1967	1,756,700,000
1968	1,297,000,000
1969	820,700,000
1970	2,490,300,000

(5) The Secretary of the Navy said that, "...the Navy needs a 10-year shipbuilding program of at least $3.5 billion a year. The program authorized in this bill would be the start of a 5-year program at a slightly higher level. Despite the many times the Armed Services Committee in the past has called attention to the block obsolescence of the Navy, little has been done about it until now. It should be emphasized we do not want a one-time crash program that will, in turn, build another problem of block obsolescence in later years; what is contemplated here is the beginning of a long-range modernization of the Navy."[11]

(6) The Secretary of Defense stated that as of 31 December 1966 the average age of the Navy's 906 ships was 17 years. He further stated that the projected average age of the fleet planned for in the 5-year defense program would go to an average age in 1977 of 13 years, with a reduction in the number of ships to 766. He also noted "We have planned a vigorous shipbuilding and conversion program over the next decade, averaging about $3 billion in the next 5 years."[12]

(7) Another indication of the Services inability to modernize forces during the Vietnam era is the average age of naval attack and fighter aircraft which will have increased by more than 40 percent between the start of FY 65 and the end of FY 71 and will have doubled between 1960 and 1970.[13]

(8) Shortages in operation and maintenance (O&M) funds during the FY 65-FY 70 period have caused an increase in the backlog of non-SE Asia support areas. For instance, the backlog of essential maintenance of real property in the Navy has increased from $160.4 million at the end of FY 64 to $270.4 million at the end of FY 69. It is estimated that this figure will grow to at least $313.1 million by the end of FY 70.[14] In a similar area the number of combat

[11] House Armed Service Committee Report on FY 1970 Authorization, H. R. Report No. 91-522, p. 56.

[12] House Armed Service Committee Report No. 91-44, pp. 1777 and 1778.

[13] Capt. G. K. Gregory, USN, Office of the Chief of Naval Operations, Discussion held in Washington, D. C., 16 December 1969.

[14] Capt. E. P. K. King, USN, Office of the Chief of Naval Operations, Discussion held in Washington, D. C., 16 December 1969.

type of naval aircraft in a deferred maintenance status at the end of the fiscal year during the SE Asia period has grown as shown in Table 8.[15]

TABLE 8

DEFERRED AIRCRAFT MAINTENANCE

Fiscal Year	No. of Aircraft
1966	337
1967	352
1968	898
1969	779
1970	1208*

*Projected.

(9) The Marine Corps reported that the fifth echelon rebuild of Fleet Marine Force ground equipment will have developed an estimated work backlog of $12,000,000 by the end of FY 70 (5 or 6 months work) and more than $17,000,000 by the end of FY 71 from an essentially no backlog position in FY 65.[16]

(10) The impact of shortages of maintenance funds is discussed in detail in the Maintenance Monograph.

e. Projects 683, 693, and 703. These three projects required a $3 billion expenditure reduction below the outlay levels in the DOD budgets sent to the Congress in FY 68, FY 69, and FY 70, respectively. Actions required to meet the expenditure reductions had severe impacts on Service programs. Since first year expenditures are much higher in the O&M and Military Personnel Appropriations than in other appropriations, these two appropriations are the first two considered when an expenditure reduction is directed. Thus these appropriations provided a large portion of the savings applied to Projects 683, 693, and 703. One of the most difficult problems that the Services encountered with these projects was the delay in developing the final reduction lists. Since reductions were made from the President's budget submission, the final reduction lists could not be made until the Appropriation Acts became laws. This delayed completion of the reduction lists until 29 September 1967, 17 October 1968, and 29 December 1969 for FY 68, FY 69, and FY 70, respectively. Thus the Services were well into the fiscal year before they knew what program reductions were needed to meet the required expenditure reduction. This situation creates a chaotic condition.

5. CONCLUSIONS

a. An integrated Planning, Programming, and Budgeting System provides a basically sound structure within the Department of Defense for adequate financial management. The office of the Secretary of Defense must issue timely guidance for it to function effectively (Appendix A).

b. National policies during the Fiscal Years 1965 to 1970 influenced financial management decisions and budgetary actions for financing the Vietnam conflict. These policies led to the exercise of tight centralized financial controls (paragraph 4a(1)(b)).

[15] Mr. Lee Stevens, Naval Air Systems Command, Discussion held in Washington, D. C., 16 December 1969.
[16] Col. R. J. Bolish, USMC, Discussion held in Washington, D. C., 23 December 1969.

c. Within the framework of these policies, the Secretary of Defense initially requested Department of Defense appropriations on a basis certain to require supplemental funds if there was not an early end to the conflict. As the war continued, supplemental requests became the routine means of financing logistic requirements above the initial level of funding. Frequent reprogramming actions and other financial management procedures were employed to offset delays in ultimately providing the funds required for SE Asia support (paragraph 3a).

d. In general, logistic support levels for SE Asia were not adversely affected by delays in congressional appropriations (paragraph 4c).

e. Adequate funds were made available to support the SE Asia effort, but providing these funds on a priority basis frequently resulted in underfunding non-SE Asia programs and created a degradation in readiness in other areas of U.S. commitment as well as long-range effects on modernization of facilities, scheduled maintenance programs, and certain major weapon system procurements (paragraph 4d).

f. Congressional actions provided adequate budget flexibility during the buildup phase of the Vietnam era (paragraph 3a).

g. Secretary of Defense procedures for incremental release of funds, and reprogramming actions created management difficulties in all Services, and at times delayed the SE Asia effort (paragraph 4c).

h. One year expenditure reduction programs, similar to Project 693, created chaotic conditions within the Department of Defense.[17] Since reductions were made from the President's budget submission, the final reduction lists could not be made until the Appropriation Acts became laws. Because of delays in these acts, the Services were well into the fiscal year before they could make program adjustments to meet the required expenditure reductions (paragraph 4e).

i. The SE Asia effort received substantial augmentation from supplemental appropriations. Since these acts were repeatedly passed late in the fiscal year or early in the following fiscal year, operations under such funding were made possible by offsetting exemptions from apportionments, reprogrammings, critical item procedures, use of emergency funds, and the invocation of Section 3732[18] of the Revised Statutues (41 USC 11) (paragraph 3a).

[17] Project 693 required a $3 billion expenditure reduction within DOD in FY 69.

[18] This is the deficiency authority for the basic support troops.

CHAPTER IV
FINANCING OF OPERATIONAL EXPENSES

1. INTRODUCTION

a. As indicated in Chapter I, the Terms of Reference for the Joint Logistics Review Board directed that particular attention be given to the financial controls exercised by the Department of Defense (DOD) during the Vietnam era. Financial controls can be interpreted a number of ways; e.g., in a narrow, restrictive sense it connotes constraining and limiting the commander's prerogatives. Conversely, it can be considered as management information that may assist the commander in judging the efficiency of his operations within his units with particular attention to the supply discipline being attained by the command.

b. The purpose of this chapter is to discuss funding under the operation and maintenance (O&M) appropriation and to determine the extent that financial management controls are advisable during combat operations. A significant segment of O&M funds are utilized to defray the cost of personnel and contractual services. However, the following discussion is directed primarily to the billions of dollars that are expended to finance the consumable materiel required to support combat units, combat support units, and combat service support units in a combat environment. Financial controls associated with such expenditures can be traced directly to the initiation of a supply action at the consumer or operational level of command. Consequently, the extent of interface between the supply and financial systems below the stock fund level within the respective Services are included in this monograph.

2. FINANCIAL PROCEDURES

a. Army

(1) General. The rapid buildup of forces in Vietnam in 1965 created the need for developing and installing a system that would properly record the expenses related to the war effort and provide a basis for budgeting. The Army did not possess this capability in Vietnam owing to the inadequacy of automatic data processing systems (ADPS) and a shortage of qualified personnel to install and operate these systems. Accordingly, financial controls and reporting were generally accomplished by the Commanding General, U. S. Army, Pacific (USARPAC), at locations other than Vietnam. The Logistic Control Office, Pacific (LCO-P), San Francisco, California, was designated as the continental United States (CONUS) focal point through which all Vietnam Redball requisitions and their status were processed. In addition, The Department of the Army established the U. S. Army Operating Cost Agency in Vietnam to develop cost data associated with in-country support operations. Both the requisitioning function and that of financial control for the entire Pacific area had been accomplished by the Oversea Supply Agency prior to its disestablishment in 1964.

(2) Fund Allocation

(a) In FY 66 O&M, Army (OMA), funds received by USARPAC for the support of U. S. Army, Vietnam (USARV), were issued to General Operating Agency (GOA) 86 of the U. S. Army, Ryukyu Islands (USARYIS). Constantly increasing requirements for materiel and the necessity for frequent justification and defense of additional stock fund obligational authority, prompted the Department of the Army in July 1966 to approve a USARPAC proposal authorizing USARV to cite OMA funds on requisitions passed to CONUS. At the beginning of FY 67, GOA 80 was established at USARPAC and assigned the responsibility for managing all funds provided for the support of SE Asia. That responsibility was

discharged by GOA 80 issuing allotments to 14 separate activities in widely scattered geographical locations some of which were in CONUS. Accounting control was exercised by each activity and financial reports were submitted monthly to USARPAC.

(b) Based on a Department of the Army study of the Army logistic system in support of SE Asia, a recommendation that the financial system be revised to provide for centralized accounting of funds was made in October 1966. On 28 December 1966, the Department of the Army approved the establishment of the Centralized Financial Management Agency (CFMA) in Hawaii with the responsibility for maintaining control over all funds expended in support of Army operations in Vietnam except those funds allotted in-country and the funds allocated to USARYIS from Okinawa support activities. Control of funds for supplies furnished from USARYIS depot inventories also came under CFMA's control.

(c) The activation of the CFMA simplified USARPAC's complicated funding channels by reducing the number of allotments from 14 to 2, one issued to USARV for in-country requirements and the other issued to the CFMA for out-of-country support.

(3) Supply and Financial Systems Interface

(a) The underlying concept of the CMFA's operation is that a copy or image of all out-of-country requisitions are received in a central file and the requisitions are adjusted upon the subsequent receipt of supply status information from suppliers. The intent is that sufficient funds are reserved to obligate and expend the correct amount when a bill is received from a supplier. The system has not functioned efficiently because of several conceptual weaknesses.

(b) Although supply provisioning is not considered a problem, effective financial control and budgeting connected with logistical support has not yet been attained to the degree desired by the command in Vietnam. The forecasting of fund requirements is a major problem area partly because there is no single control point for requisitions and supply status reports relative to out-of-country support. Approximately 500 Army of the Republic of Vietnam (ARVN), and contractor-operated activities in Vietnam are authorized to initiate an action that will affect the funds administered by CFMA. Some difficulty has been encountered, to date, in collecting the volume of documentation of these activities both to and from CONUS.[1]

(c) The CFMA is not in the direct flow of Military Standard Requisitioning and Issue Procedures (MILSTRIP) transaction documents and does not routinely receive status information on requisitions held by CONUS, Defense Supply Agency (DSA), and General Services Administration (GSA) suppliers. The LCO-P, San Francisco, California, provides supply status data to CFMA and could provide additional financial management data. The ability of the Army's primary fiscal agency, the CFMA, to exercise financial control largely depends on agencies external to USARPAC for providing vital financial data on a voluntary basis.

(d) The inability of the financial agency to determine fund requirements from the requisitioning process led to the Department of the Army decision not to create a financial obligation until a billing is received from the supplier. In lieu of the creation of an obligation, CFMA uses a fund reservation file. When supply and shipment status are received on requisitions not held by CFMA, the data serve to post an entry to the fund reservation. During FY 69, CFMA established fund reservations of more than $3.5 billion. Of this amount, only $1.4 billion represented requisition copies or images received at CFMA through the USARPAC normal supply system. The remaining $2.1 billion was posted from supply and shipment status documents ultimately provided by the supplier or LCO-P. Eventually, $1.05 billion was purged from the record because of the lack of status or other advice information.

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[1] U. S. Army, Pacific, Briefing to JLRB Financial Management Team, subject: Centralized Financial Management Agency for Support of South Vietnam, 2 December 1969.

(e) To alleviate this situation CFMA has proposed that a central control point be established through which all transactions would flow for supply and fund management purposes. The proposal is currently under study by the Department of the Army. In addition, efforts by CFMA to centralized all out-of-country requisitioning under control of the Inventory Control Center, Vietnam (ICCV), the Aviation Materiel Management Center, and the 32d Medical Depot have been designed with the goal of obtaining financial information as close to the source as possible. Furthermore, USARPAC is in the process of installing a mechanized supply and financial system (3S) to support supply activities located in the Pacific. When 3S is operational, the CFMA will then obtain tape images of requisitions the ICCV and depots have submitted to out-of-country sources and tapes depicting successor status. These actions should materially increase the validity of the CFMA fund reservation file.

(f) Some weaknesses are present in the supply and financial management systems. One has been discussed—the lack of a central control point through which all documentation flows for positive supply and fund control purposes. The other is the absence of financial data for assisting the commanders in the management of their resources. The basic guideline for operating the Army logistical system in SE Asia was that supply documents would be released from Vietnam without financial restriction and financial accounting for items would be dropped upon issue from theater stocks. In early 1969 the Army revised its policy of unrestricted requisitioning to one of a priority of requirements within programmed dollar goals.

(g) The changes to the financial policy and management are quoted in part:

> "The purpose of the Centralized Financial Accounting System in Support of U. S. Army Forces in Vietnam, as established by DA directives on 1 July 1967, was to centralize the bill paying, data accumulation, and fund forecasting functions at one location. There was to be no financial restriction on USARV material requirements. Further, Fund utilization was to be governed by supply discipline, i. e., buying only what was needed in the quantities required. . . . the Department of the Army now envisions a definite departure from unrestricted requisitioning to a disciplined program of ordering what is needed at the source within available resources, ..."[2]

(h) The basic objective in the programmed dollar goal concept was the development of a resource management capability that would identify fund utilization and permit factual justifications, reporting, budgeting, and fund requirement forecasting. The dollar goals were developed on a quarterly basis for FY 70 and promulgated to USARV in April 1969.

(i) The decision not to impose dollar targets below the depot level in USARV results in limited control over the number of requisitions initiated by the supported combat commands. The depots drop accounting upon issue of an item, and combat commanders are not provided with regularly scheduled mechanized supply reports expressed in financial terms that provide a comparison of the cost of supplies consumed with funds authorized. These commanders have unlimited drawing rights as do their counterparts in the other Services. The basic difference is that the other Service commanders are provided feedback information that assists them in measuring and controlling their supply procedures. The establishment of financial targets on the operating units helps to control requisitioning, which if abused can distort demand data in the depots' files, inflate requirements forecast, and lead to excesses. The revised Army support system now under development will not provide financial information to Commanders on an automatic basis; however, it incorporates the capability to stratify cost data by customer as required.

(j) The capability of a supply system to identify the end user of the issue and the establishment of a financial target on the user's requisitional authority assist in the development of supply discipline. At present the Army's logistic system in Vietnam does not have these characteristics; consequently, no formal relationship exists between supply and finance at

[2] Ibid.

the using unit level. Identification of the end user at the depot level, however, will materially contribute to command maintenance of supply discipline.

(4) Reporting System

(a) The primary financial report prepared by CFMA is the RCS CSCAB-254, which is submitted monthly to DA. The first report was submitted on 31 October 1969. In this report receipts and issues of consumer-owned inventory in-country as reported by ICCV and the Aviation Materiel Management Center are portrayed as is financial information compiled from the accounting records of CFMA. Planned fund reservations and obligations are shown; actual obligations are presented and compared to the planned obligation rate.

(b) Basic to any overall system that has interaction between supply and financial matters is the requirement for a rigidly prescribed set of procedures that govern the timing and conduct of the reconciliation of supply and fiscal records. In October 1969, a reconciliation was conducted by CFMA. The results of its first reconciliation with the U. S. Army Materiel Command (AMC), DSA, and GSA were accomplished by providing listings and follow-up punched cards for 185,704 outstanding requisitions to LCO-P. The documents matched 136,096 requisitions held by LCO-P. The LCO-P prepared and forwarded MILSTRIP follow-up cards to the last known source of supply for the 49,608 unmatched documents. In addition, LCO-P provided CFMA with tapes of more than 92,000 requisitions held in their records but not in CFMA's. The tapes were used by CFMA to establish fund reservations in December. The initiation of such reconciliation procedures will improve considerably the financial control exercised by the CFMA.

(5) Budgeting. Since there was no capability in Vietnam to determine and project funding requirements for the procurement of stockage and troop consumption items, necessary budget estimates were developed by USARPAC based on best available records and assumptions. Budget estimates were based on per man-year costs and flying hour costs developed from historical records. The Army recognized that this procedure was a limited substitute for sound budgeting techniques as attested to by the following analysis. "Per-man costs are so numerous and so varied in range that any single such cost is not representative of all such costs. Thus, extreme caution should be exercised when using such costs for cost computations. Per capita costs based on the organic division may vary significantly from per capita costs based on the support slice man."[3] The establishment of financial controls at the ICCV level should create improved cost data for future budget years.

(6) Summary. The Army's peacetime financial management system was not introduced in-country until 1969. The organizational structure for monitoring the system has a critical weakness, namely, the lack of a single point of control over supply documents leaving Vietnam. This factor seriously impairs CFMA in its effort to capture and manage the financial data required for fund forecasting. However, dollar targets placed at the depot level do provide theater senior commanders with a capability of measuring supply discipline, through direct support units (DSU).

b. Navy

(1) General

(a) The Navy's concept of complete mobility requires the commander to have direct, positive control over the financial resources needed to execute assigned missions. Experience gained during World War II and the Korean War confirmed the wisdom of this policy when it is applied to minimize the administrative load placed on the smaller commands. The

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[3] U. S. Army Field Operating Cost Agency Study, Comparative Cost Analysis of Divisions in CONUS and RVN, OF-102-70, July 1969.

Navy's financial management system, consequently, has been designed to function both in peacetime and during hostilities. Command and financial management responsibility are interwoven and discharged concomitantly.

(b) At present the funding chain of command parallels that of the traditional command structure. This was not the case prior to FY 68. In 1965, the basic organization of the Department of the Navy was bilinear with respect to the command responsibility for the procurement, funding, and utilization of materiel in support of the operational forces and shore activities of the Navy. The Chief of Naval Operations (CNO) had responsibility in the latter category; responsibility for the others was vested in the Chief of Naval Material (CNM) who headed the Naval Support Establishment. The CNM reported directly to the Secretary of the Navy as did CNO in spite of the fact that he commanded the operating forces and shore activities. In effect, the CNO did not possess authority over the management of the financial resources required to discharge his assigned mission.

(c) In May 1966, General Order Number 5 realigned the command structure into its current form in which both the operational forces and the logistic support bureaus report to the Secretary of the Navy via the CNO's office. The O&M funds now flow down to the operational forces through the same chain of command. It must be pointed out that the Navy's financial management system was functioning efficiently from a technical aspect for a number of years before the promulgation of General Order Number 5. The system was readily adaptable to the command realignment and the transition to the revised funding flow was accomplished smoothly.

(2) Fund Allocation

(a) Prior to FY 68, the Commander, Service Forces, Pacific Fleet (COMSERVPAC), as the Principal Logistics Agent (PLA) for the Commander in Chief, U.S. Pacific Fleet (CINCPACFLT), received and suballotted the O&M funds provided by the various logistic support bureaus, i.e., Bureau of Ships, Bureau of Yards and Docks, and Bureau of Medicine and Surgery. Since FY 68, primarily as a result of studies conducted in connection with General Order Number 5, funds have been received directly from CNO and have been managed by the staff of CINCPACFLT in lieu of COMSERVPAC. In turn, CINCPACFLT allocates the funds to the type commanders (TYCOMS) such as Commander, Submarine Force, U.S. Pacific Fleet, and Commander, Naval Air Force, U.S. Pacific Fleet.

(b) Within PACFLT the TYCOMS, who hold expense limitations, are designated as responsibility centers as are the fleet's shore activities. Ships, mobile construction battalions, and aviation squadrons (operating forces) are designated as cost centers. Funding of subordinate commands below the TYCOM level is accomplished by the issuance of operating budgets (OPBud). Each TYCOM issues an OPBud to himself to finance his headquarters and centrally managed costs such as ship and squadron operations; each major shore activity under the command of an expense limitation holder also receives an OPBud. Commanders of operating forces such as ships and aircraft squadrons in turn receive operating targets (OPTARS) from the OPBud holder for support of their operations.

(c) The OPTAR represents the basic medium through which financial control is exercised in the operating forces. The OPTAR dollar ceiling is established by the TYCOM after empirical cost data reflecting past operating experience have been tempered by command judgment reflecting the potential effect of the planned operations. The financial target serves as a standard or bench mark against which the operating force commander may gauge the logistical performance of his command and determine whether his mission can be accomplished with the resources provided.

(d) Although the OPTAR is an authorization to incur obligations against the Treasury of the United States, the legal responsibility not to overcommit, overobligate, or overexpend appropriated funds under the provision of Section 3679, Revised Statutes of the U.S. Code does not extend below the OPBud level. Operating force commanders below the TYCOM level, though exempted from the restriction of Section 3679, have the responsibility inherent in

the subordinate and commander relationship for promptly advising the senior commander at the time they recognize that their OPTAR ceiling is inadequate.

(3) Supply and Financial Systems Interface

(a) Performance of the detail accounting functions for PACFLT operating forces is the responsibility of the Navy Regional Finance Office, (NRFO) San Diego; the Fleet Aviation Accounting Office, Pacific; and the Construction Battalion Center, Port Hueneme, California.

(b) Upon receipt of an OPTAR the operating force commander establishes an OPTAR log to record the dollar amount of the authorization. When a requisitioning document is introduced into the supply system that will result in a charge to the commander's funds, it is posted to the OPTAR log. In addition, a copy of each document created is forwarded to the assigned accounting activity. Each document contains the requisite accounting data for identifying the chargeable operating budget and the cost data desired.

(c) The success of the Navy's financial management system for its operating forces depends on strict compliance with standard supply procedures and the degree of command attention directed to the enforcement of supply discipline. An indication of the status of the CINCPACFLT supply discipline program is provided by data obtained from the command financial reporting system and supply and fiscal reconciliations.

(4) Reporting System

(a) The subordinate commander submits a monthly Budget/OPTAR Report to the accounting activity and a copy to the senior commander who granted the OPTAR. The report summarizes the month's transactions and any cumulative obligations incurred to date as a result of operations. To assist the OPBud holder in the control of his financial resources, the accounting activity prepares a monthly Ship/Staff Status Report that summarizes the financial transactions under his OPBud authorization. This report is also useful to the TYCOMS in preparing their OPBud Financial Report that is forwarded monthly to CINCPACFLT.

(b) The reconciliation between the supply and fiscal records is accomplished using the following reports prepared by the accounting activity:

1. Obligation and Expenditure Difference Listing. This is a monthly report provided to the operational commander. It reflects the difference between the dollar amount obligated on the initial requisition, which was posted in his OPTAR log, and the dollar amount actually charged against his authorization. This report enables the command to adjust its unobligated balance to preclude overspending and, conversely, to get maximum benefit of its funds.

2. Unfilled Order Listing. This document lists all unfilled requisitions that have been pending for 120 days or longer. It is provided quarterly to OPTAR holders for review and for determination of whether it is still a valid requirement. The operating unit initiates cancellation procedures if the latter condition exists. The organization is required to return an annotated copy of the listing to the accounting activity indicating the status of each requisition as reflected in its own supply records and the action being taken to purge the list.

3. Unmatched Expenditure Listing. This report is also a quarterly listing that is provided to the OPTAR holder for identification of the related unfilled order for which a bill has been paid by NRFO.

(5) Budgeting. Commanders are required to submit budget estimates in justification of their stated requirements for the budget period. Although a formal budget submission is required by CINCPACFLT of only operating budget and expense limitation holders, those echelons of command in turn require subordinate commands to participate on a minimal basis

in the budget formulation cycle. The cumulative expense data regularly provided in the accounting activity mechanized management reports serve as the cornerstone for the development of the budget and subsequent financial plan. Justification is limited generally to a narrative description of the factors causing variance between the cost of current and planned future operations by functional category. The CINCPACFLT budget submission to CNO conforms to the Five-Year Defense Program (FYDP) format in that requirements are broken out by program elements, functional categories, and elements of expense.

(6) Summary. The Navy's financial management system, capable of functioning both in peacetime and in support of combat operations, interfaces with and complements the established supply system. Utilizing ADP techniques, the system provides all levels of command with management information that assists the combat commander in controlling and managing his resources—both materiel and financial—with a minimum of administration. The capability of the system to identify materiel issues to the individual ultimate end user facilitates the forecasting of financial requirements for materiel support and provides the basis for relating expenses to the program elements and programs applicable to the FYDP.

c. Marine Corps

(1) General

(a) The Marine Corps philosophy of financial management is based on the principle that financial management is not only inseparable from command but it is inherent in command. Financial management has no bearing on determination of mission but it is a primary consideration in determining both the means and the time-phasing of its accomplishment. The commander normally has two areas of financial responsibility: the responsibility that tasks him with the control and administration of the resources granted to perform his mission; and a legal responsibility not to overcommit, overobligate, or overexpend appropriated funds, which is assigned by Section 3679, Revised Statutes of the U. S. Code. To assist the commander in this vital function, the Marine Corps established a general staff officer billet within major Fleet Marine Force (FMF) organizations, such as infantry divisions and aircraft wings, to act as the comptroller or principal financial advisor to the commander.

(b) The Marine Corps does not have a designated corps of financial managers. Unrestricted line officers who have extensive command and staff experience are assigned to comptroller billets. Regulations preclude successive assignments; therefore the objective is to produce as many prospective senior commanders with financial experience as possible.

(c) The financial management system within the operating forces is predicated on the premise that the standard, normal supply procedures employed throughout the Marine Corps develop a wealth of meaningful financial data that can be readily captured employing ADP techniques. The information that can be accumulated is of such magnitude and detail that it provides a firm foundation for budget preparation and execution. The system is capable of functioning effectively under both a garrison or operational type of environment. Consequently, the existing peacetime procedures were employed in SE Asia with only a slight modification. Prior to 1 September 1965 all FMF, Pacific (FMFPAC), units were funded through a formal suballotment by the Commanding General (CG), FMFPAC, and the major commands were responsible for the formal allotment accounting of those funds. As units began phasing into Vietnam, a requirement developed to reduce the administrative burden on the operational commanders relative to formal accounting. At the same time, a requirement to retain them in the existing budgetary process also existed. In brief, dollar requirements to support their logistical requirements had to be readily apparent to CG, FMFPAC, and the Commandant of the Marine Corps (CMC) on a timely basis. To accomplish those goals, a centralized accounting concept was developed in August 1965. The objectives were:

1. To relieve FMFPAC units in-country and on Okinawa of legal responsibility for formal allotment accounting.

2. To provide operational commanders and CG, FMFPAC, with financial data for supply management and budgetary purposes.

(d) Utilizing the accounting personnel assets of the major commands, a fiscal office was established in the 3d Force Service Regiment (3d FSR) on Okinawa and the responsibility for all formal accounting in the Western Pacific (WESTPAC) was assigned to the commanding officer of that organization. The foregoing change was one of an administrative nature rather than a conceptual one. Accordingly, little difficulty was encountered during the changeover.

(2) Fund Allocation

(a) Marine forces assigned to the Seventh Fleet and the III Marine Amphibious Force (III MAF) in Vietnam are under the operational control of those commanders; however, the responsibility for the administrative and logistical support of those forces rests with CG, FMFPAC. Accordingly, funds provided to operational commanders in-country flow down from CG, FMFPAC, direct to division and wing commanders, bypassing III MAF and Seventh Fleet.

(b) The O&M funds are administered by CG, FMFPAC, through the assignment of OPBuds to the major commands in SE Asia. The 1st and 3d Marine Divisions, 1st Marine Aircraft Wing, 9th Marine Amphibious Brigade, Force Logistic Command (FLC), and the 3d FSR are considered to be major commands.

(3) Supply and Financial Systems Interface

(a) Materiel stock replenishment buys for support of Marine Corps operations in Vietnam are made by the 3d FSR on Okinawa. The O&M funds for this purpose are provided by the CG, FMFPAC, to the 3d FSR. Stocks so procured are pre-expended and then used to fill demands placed on the in-country supply organization, the Force Logistic Command (FLC), by the major commands. The demands placed by the units against the FLC elements cite OPBud requisitional authority in the requisitioning document as opposed to a formal fund authorization.

(b) An OPBud constitutes authorization in a prescribed financial amount for a major command to requisition material against the stock assets of the 3d FSR or FLC in support of its assigned mission. The OPBud authorization, or dollar ceiling, is not a financial constraint on the commander's action. Under no circumstances will a command be denied materiel because it has exceeded its requisitioning authority; the successful accomplishment of its assigned mission is of paramount concern. The commander is not legally responsible for overcommitment or overobligation of fund authorizations; however, he does have the responsibility for advising the CG, FMFPAC, of the adequacy of his OPBud authority.

(c) A command's OPBud authorization dollar ceiling is established by CG, FMFPAC, only after the budget review of the commander's stated requirements in his annual budget submission. The summation of the individual OPBud requisitional authorizations granted to WESTPAC commands equates to the total hard dollar obligational authority granted to the 3d FSR by the CG, FMFPAC, for stock replenishment buys in support of those commands.

(d) The establishment of materiel requisitional authority ceilings in financial terms has two primary objectives:

1. To provide the commander with financial management data directly related to his internal supply procedures that will enable him to evaluate the efficacy of his own supply procedures and to provide him with an insight into the supply discipline practiced within his subordinate commands. Financial management data are provided to the commander in the format of mechanized management reports by the 3d FSR fiscal office as a by-product of the supply actions initiated by his own command.

2. To provide CG, FMFPAC, with an additional management tool for discharging his command responsibility in the area of logistical support to in-country forces. As operational commitments and the tempo of combat in SE Asia change, corresponding modifications to the supply pipeline are required—preferably in advance of the operational impact. The identification of the modified material requirements (increase or decrease) compels the commander to apprise CG, FMFPAC, of not only the change in the type of demand but also of the adequacy of his requisitional authority to support his revised future requirements. The financial data assist the CG, FMFPAC, in the determination of whether his existing financial resources are sufficient or whether additional O&M funds to expand the pipeline must be requested from CMC.

(e) A statistical accounting system, the Operating Forces Financial System (OFFS), supports the OPBud system. The system will capture the unit's operating costs provided three basic requirements are satisfied: first, every materiel issue must be supported by a document; second, a cost code must appear on the document; and, third, the document must be introduced into the statistical accounting system. The cost code is comprised of 12 digits that identify the FY, the unit submitting the requisition, its parent command, the major command, the end use to which the materiel will be applied, Program Element, and Element of Expense. The latter 2 categories are requirements created by the introduction of Priority Improved Management Effort (PRIME) into the system and are related directly to the FYDP. All requirements for materiels or services are introduced into the normal supply channels according to prescribed requisitioning procedures, and the requisition documents are then mechanically processed against the stock balance cards of the 3d FSR or FLC. In the event a requisition does not contain a cost code, it will not be accepted or processed.

(4) Reporting System

(a) As previously mentioned, the centralized fiscal office in the 3d FSR has the responsibility for providing CG, FMFPAC, and subordinate commanders with the information needed for the discharge of their financial management responsibilities. The basic philosophy used in designing the individual reports was to keep the format as simple as possible using the building-block concept—expenses are identified at the lowest command level and summarized for succeeding levels. The following mechanized reports, provided on a scheduled basis, accomplish the requirement:

1. OPBud Unit Code Report. This report is provided to commanders twice a month. It is a detailed listing of the documents entered into the supply system and is the basic report used by the supply officer to determine which of his requisitions have been recorded in the statistical accounting system. The report lists documents in sequence for each Reporting Unit Code (RUC) and pertinent identifying information.

2. Unit Code Management Report. This report is provided semimonthly to all units assigned a unit code. It is a summarized, cumulative listing of charges recorded against the unit. This is the basic report required by the commander to compare actual costs with budgeted costs. For example, the 1st Battalion, 3d Marines, has an organic supply section and can initiate supply requisitions in support of its four rifle companies; therefore, it has a unit code and receives this report. Inasmuch as the Unit Code Management Report equips the commander with the tool for evaluating the performance of his unit in financial terms, it is provided on an appropriately summarized basis to successive echelons of commands up to and including the CG, FMFPAC. The final consolidation reflects the cumulative charges recorded against the total requisitional authority granted to the WESTPAC commands. The CG, FMFPAC, staff uses the report for comparison of actual costs with budgeted or planned costs. In addition, the final summary is also provided to the 3d FSR for supply management purposes.

(b) The foregoing reports reflect the operational costs incurred in-country as a result of the commands exercising their requisitional authority against the stocks of the 3d FSR and FLC. The CG, FMFPAC, has a vital interest in maintaining a relatively stable

equilibrium between the requisitional authorization of the units and the O&M obligational authority granted to the 3d FSR for stock replenishment buys. The information employed by CG, FMFPAC, to maintain the desired balance between them is derived from the previously described operational cost reports and the following reports provided by the Commanding Officer, 3d FSR, to FMFPAC:

1. Daily Status Report of Recurring Demands (RD) and Nonrecurring Demand (NRD) Obligations. This daily status report submitted by message, provides the daily obligations for RD and NRD stock buys. The information assists CG, FMFPAC, in the detection and evaluation of significant variances in the cost trend and further, in implementing, on a timely basis, such command action he deems warranted by his evaluation.

2. Weekly Status Report of Program Codes N and R. The information required is similar to that provided in the daily status report but is in a more abbreviated form. Program Code N designates stock buys of a nonrecurring demand type, whereas Program Code R pertains to the procurement of items with sufficient demand that they qualify for stockage in the 3d FSR.

(c) Although the reporting system is the basic element for maintaining financial controls, it is complemented in this function through the exercise of supply and fiscal reconciliations at the various echelons of command. In August 1965 when the decision was made to centralize formal allotment accounting, both Okinawa and Hawaii were considered as the site for the central fiscal agency. The primary factor governing the selection of Okinawa was the recognition that a close physical proximity between the primary supply agency (3d FSR) and the fiscal organization was mandatory if the reconciliation of supply, fiscal, and customer records was to be accomplished efficiently. Early control over two vital areas had to be established: the reconciliation of 3d FSR's supply and fiscal records with CONUS supply agencies to manage the O&M funds expended for stock replenishment, and the reconciliation of the customer's supply records with those of the 3d FSR and FLC to assist the commands in the management of their requisitional authority.

(d) The volume of requisitions processed by the 3d FSR in support of WESTPAC forces increased approximately 500 percent from the initiation of the SE Asia buildup until all major commands were introduced in-country. To ensure a timely reconciliation between the supply and fiscal records, a high dollar monthly reconciliation was initiated—the procedures are still in effect. The reconciliation covers only a small portion of the documents involved but accounts for 80 to 90 percent of the O&M dollars obligated. This procedure enables the reconciliation to be completed rapidly and dollar control maintained.

(i) Budgeting

(a) The major concern of a commander and his staff is the accomplishment of the mission, and the magnitude and availability of his resources govern, to a large extent, the success or failure. The system for identifying operational costs to assist the commander in forecasting his future resource requirements and for providing a tool to measure how efficiently and effectively he is employing his resources has been described earlier. To derive a benefit, a standard must be established against which the results of actual performance can be measured. This standard is provided by the planned operations defined in the commander's annual budget. Accordingly, major commanders are required by CG, FMFPAC, to submit each year comprehensive budgets for the current year and budg year plus one.

(b) The budget is devel ed from the cumulative statistical data provided in the 3d FSR management reports. That information is modified as required by the commander to reflect his command judgment relative to his future operational commitments and any additional logistical guidance provided by CG, FMFPAC, in regard to the budget period. Mechanized procedures have been developed that enable CG, FMFPAC, to summarize immediately the separate command budgets upon receipt. The summarized budget and the individual command budgets are distributed to his staff for evaluation and recommended changes. Upon completion

of the review and approval by CG, FMFPAC, the FMFPAC budget (mechanized) is forwarded to CMC. The 3d FSR submits, in addition to a budget for its organic operations, an estimate of the total O&M dollars required for stock replenishment purposes during the given budget year. The estimate is accompanied by a narrative description of the records used to compute the requirements. This information is compared with total requirements identified in the individual command budgets as a means for ascertaining whether the supply and financial computations are correlated properly.

(6) Summary

(a) The Marine Corps insists that responsibility for the management of financial resources is equally as important as any other assumed by a commander. Consequently, he is required to participate fully in all aspects of the existing financial management system. This philosophy is extended into the combat arena primarily because the financial controls inherent in the system assist the commander to discharge his responsibility for ensuring that the proper degree of supply discipline is practiced in his command. Without financial controls, as employed in the OFFS system, the Marine Corps believes that the latter responsibility could not be accomplished effectively and, under the rigors of combat, a tendency toward supply irresponsibility could materialize with resultant exorbitant costs and a concomitant reduction of supply effectiveness.

(b) In view of the foregoing, the CMC is convinced that not only was the extension of peacetime financial controls into Vietnam desirable, it was mandatory. Any financial controls employed from the supply side of the house must be able to, first, identify the organization consuming materiel, i.e., the end user; second, identify the amount the unit is authorized to consume; and, third, identify the amount of supplies actually being expended. If these requirements are satisfied the maintenance of supply discipline and effective logistical support can be attained. The Marine Corps financial management system is an integral part of the overall system designed to accomplish these simple but vital tasks.

d. Air Force

(1) General

(a) The Air Force financial management philosophy for operational forces is similar to that of the Navy and Marine Corps in that responsibility for this important function is considered to be an integral component of the command function. Financial management responsibility is decentralized to those commands that actually use and consume resources at operational levels. The financial resources required to support assigned missions are provided directly to the commander, who is held responsible for the management of those resources.

(2) Fund Allocation

(a) Prior to FY 66, funding responsibilities for SE Asia were performed jointly by Thirteenth Air Force and the 405th Fighter Wing at Clark Air Base. Fund requirements in support of the initial deployments and early budget estimates were prepared by the functional divisions of the Thirteenth Air Force staff, and accounting functions were performed by the 405th Fighter Wing. As the scope of the operation and the complexity of these functions increased, the concept shifted toward accomplishment of budgetary and accounting within SE Asia and a start was made at building a comptroller agency within the 2d Air Division, the headquarters exercising primary jurisdiction over units in SE Asia. Eventually, that command assumed the responsibility for the budget estimate function and controlled its own funds, with a very limited accounting capability. Some accounting functions remained with Clark Air Base.

(b) On 8 July 1965 the 2d Air Division was placed directly under the command of Headquarters, Pacific Air Forces (PACAF), and was assigned the responsibility for support of Air Force activities in Vietnam. Accordingly, the requisite funds flowed directly from PACAF to the 2d Air Division. With the inactivation of the 2d Air Division on 8 April 1966

and the assumption of its former responsibilities by the Seventh Air Force, which was reactivated on the same date, the accompanying funding revision was one of a purely administrative nature—redesignating the fund recipient as Seventh Air Force in contrast to the 2d Air Division. Funds flowed directly from PACAF to Seventh Air Force in lieu of 2d Air Division, and the procedure is still in effect.

(c) Formerly, the funds were provided in the form of an allotment to Seventh Air Force; and in FY 69 the funding medium became the operating budget. The administrative features of that document have been discussed previously in the Navy portion of the chapter and, therefore, they will not be discussed in detail here.

(d) Under the Air Force concept, operating budget funds alloted to the respective wing commanders by Seventh Air Force incorporate the legal restriction embodied in Revised Statutes 3679 relative to the overobligation of funds. Organizational units below the wing and base level are provided funds expressed in the form of operating targets; the total of all operating targets equate to the total authorization expressed in the wing and base commander's operating budget. Though the subordinate commanders are not legally responsible for the financial resources provided to them, they are responsible to their superiors for any mismanagement that leads to a violation of Statute 3679 on the part of the senior commander.

(3) Supply and Financial Systems Interface

(a) Of all the Services, the Air Force's standard Universal Automatic Computer (UNIVAC) 1050-II supply system affords the most extensive interface between supply and financial actions in support of operational requirements. Prior to its adoption in Vietnam in FY 68, however, the Air Force's system in that respect was considerably less integrated.

(b) In January 1965 the base supply account at Tan Son Nhut was the primary in-country source of supply; the base supply account at Clark Air Base provided general supply support. It was operated on a manual basis until the middle of FY 67 when it was converted to punch-card accounting procedures. With that limited capability the supply system was hard-pressed to accomplish ordering, receiving, and issuing action, much less financial management as the buildup occurred. Stock control was practically nonexistent and very little effort was made to control or reduce the size of the accounts.[4] The Department of the Air Force, accordingly, deemed it desirable to grant a waiver of the requirement to maintain financial inventory accounting in Vietnam during the period 1965-66.

(c) During the early stages of the Vietnam situation tactical squadrons were deployed in-country on a temporary duty basis with only minimal financial controls in effect. System support supplies were provided on a free issue basis; materiel requirements in the general support category were funded by PACAF with O&M funds and the financial accounting was accomplished as previously described.

(d) In the latter part of FY 68 and early FY 69, a conversion to the standard UNIVAC 1050-II computer system was accomplished at all supply accounts, which had expanded by that time from the original one at Tan Son Nhut to a total of 10. This system is standardized throughout the entire Air Force and is currently employed at 147 bases to support its base supply functions. The system incorporates virtually every aspect of supply and financial data that can be conceivably required at base level. Because it is designed and programmed in one office in Washington, D.C., for use in the entire U.S. Air Force, it is designed to accommodate optional and variable data at base level tailored to the specific needs of that particular base.

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[4] Thirteenth Air Force, Pacific, Briefing to JLRB, subject: Operational Support of Vietnam, September 1969.

(e) With the introduction of the system in-country, the Air Force began obtaining firm control over both its materiel and financial resources. The UNIVAC 1050-II system differs primarily from the Navy and Marine Corps systems in regard to the number of financial management reports provided to the commanders and the fact that it is practically a completely automated system. Relatively few, if any, records are required to be maintained on the operational unit level on a manual basis. Despite these differences, the respective systems of the three Services have a significant degree of commonality; i.e., the introduction of a supply requisition into the system causes both supply and financial controls to be exercised in an integrated, complementary manner.

(4) Reporting System

(a) The UNIVAC 1050-II system provides two series of reports. The Management Report Series is composed of nine reports, four of which are applicable to operating forces at the wing and lower echelons. The remaining five reports are designed for use by major commands such as the numbered Air Forces. The management reports are expressed basically in financial terms and they tell the commander how this consumption of resources (actual expenses) compare with his plan (budgeted expenses). The other series of reports, the Materiel Management Reports, are developed by the supply system. They are used at the wing and base and lower echelons to monitor that portion of their operating budget and/or operating target specifically earmarked for purchase of materiel.

(b) The financial data are included in the monthly management reports that are derived from the budgeting and accounting system. The basic report is the Organization and Cost Center Report, which is updated on a daily basis. It tells the supply personnel of the supported unit: the specific requisitions the unit has introduced in the system by document and Federal Stock Number; the unit's dollar balance at the beginning of the day; the specific due outs held by the base supply office for the organization; the net fund balance at the close of the day's business; the total dollar authorization granted in the unit's operating budget or target for materiel purchases; and, finally, a cumulative total of all charges against the unit's authorization to date.

(c) In addition to the detailed reporting system, the Air Force also relies on reconciliation of supply and fiscal records as a financial control procedure for assisting the commander in the management of his resources. Considerable difficulty was experienced in the reconciliation process with CONUS supply agencies prior to FY 68 because of the incompatibility of the manual and, subsequently, the punch-card accounting machine procedures with the mechanized systems of the Air Force logistics Command (AFLC), the DSA, and the GSA. The situation improved measurably with the introduction of improved communications in the form of Automatic Digital Network (AUTODIN) and the computerized UNIVAC 1050-II procedures. At present due-in due-out reconciliations are in effect with AFLC, DSA, and GSA: regularly scheduled reconciliation of supply and financial records are conducted also between the wing and base and subordinate echelons of command.

(5) Budgeting

(a) The Air Force budgeting system in-country is equally as extensive and formal as that of the Marine Corps. Wing and base commanders are responsible for the development and submission of annual budgets to the Seventh Air Force, who, in turn, submits to PACAF budget estimates and copies of the estimates of its major subordinate commands. Mechanized procedures that facilitate preparation of the budget have been developed. Narrative justification of the budget requirements is mandatory at all levels. The empirical, cumulative expense data provided in the report system serve as the foundation on which the budget estimate is developed. The budget format is designed to portray the financial requirements of the operating units in conformance with the program structure of the DOD as expressed in the FYDP, for example, Program II (General Purpose Forces) and Program Elements (F104 squadrons).

(6) Summary. The financial controls imposed by the Air Force have considerable interaction with those imposed on the supply side of the management function. The Air Force system of financial management in the operating forces has a twofold goal: to provide a history

of expense data for use in budget formulation and to promote cost awareness by charging the commander for the resources consumed by his unit. The management feedback data provided in the comprehensive reporting system provide the tools he needs not only to enforce supply discipline but also to recognize when the supply system is not being responsive to his needs on a timely basis.

3. SUMMARY. The Navy, Marine Corps, and Air Force established their peacetime financial management systems in Vietnam. The Navy and Marine Corps were able to continue their financial management systems upon deployment without interruption because they had considered the requirement in their contingency planning with only slight administrative adjustments. The Air Force phased its financial management system into Vietnam as computers and trained personnel became available. The Army's peacetime financial management system was not introduced in-country until 1969 owing primarily to a shortage of computer facilities and trained personnel. Prior to 1969 financial management was centralized at Headquarters, U.S. Army, Pacific, where the CFMA still serves as a monitor of the system. The financial management system of the other Services vary in detail, complexity, and impact on combat units. However, they all have the following common objectives:

a. To introduce financial management systems into the combat area at the required level as soon as possible

b. To integrate the financial and supply management systems below the stock fund level

c. To reconcile financial and supply records on a regular basis and in a systematic manner

d. To account for funds at a central location based on the original user unit requisition

e. To perform the accounting function on an automated basis by a noncombat organization

f. To use a cost information system that identifies materiel costs with its ultimate end use

g. To furnish financial data to appropriate commanders for use in the management and evaluation of supply effectiveness and discipline programs

h. To include the participation of all major combat organizations in the budget formulation process.

4. CONCLUSION AND RECOMMENDATION

a. Conclusion. Vietnam experience has proved that financial management techniques, when utilized to an appropriate degree, could be a useful adjunct to other procedures in improving the effectiveness and efficiency with which materiel is managed.

b. Recommendation. The Board recommends that:

(FM-1) The Services, when planning contingencies, outline appropriate financial management systems for Operation and Maintenance funds supporting operations in the combat area. Such systems should:

(a) Be appropriate to the combat environment.

(b) Avoid extension of financial accounting to a level that interferes with combat operations or places an undue administrative burden on combat organizations or their logistic support units.

(c) Be mechanized to the extent practicable.

(d) Be integrated with the Service's total resource management system.

(e) Parallel the Service's peacetime system to the extent practicable.

(f) Identify expense materiel with an appropriate cost account.

(g) Use financial information in the determination of requirements and identification of areas for improved management.

(h) Provide useful reports to appropriate levels having management responsibilities (conclusion (1)).

CHAPTER V

FUNDING OF INVENTORIES OF EXPENSE ITEMS

1. GENERAL

a. The cost of materiel consumed in use is an expense to be identified in programs and budgets for financing by annual appropriations for support of operations.[1] Materiel consumed in use includes the materiel that is consumed upon issue to the final user or that will be consumed shortly thereafter. Also included are some secondary items that are not physically consumed in a short time and do not warrant the accounting and centralized management required for investment items.

b. From the time of initiation of expense materiel acquisition until its issue for use, it is the policy of the Department of Defense (DOD) to utilize working capital funds to finance the inventories.[2] At the most distant point of issue from a working capital inventory, the cost of of an item is charged, regardless of whether actual consumption occurs at that time. The working capital funds established to finance inventories in the DOD are known as stock funds and were authorized in Section 405 of the National Security Act Amendments of 1949 (10 U.S.C. 2208). Their administration and management are provided for in DOD Directive 7420.1, Regulations Governing Stock Fund Operations. Five separate funds have been established: the Army Stock Fund, Navy Stock Fund, Marine Corps Stock Fund, Air Force Stock Fund, and Defense Stock Fund.

2. COVERAGE. The extent to which inventories of expense items in the military supply systems are financed through stock funds differs in the military services. Changes during the Vietnam era have been in the direction of greater uniformity.

a. Army. Since 1 January 1965, the Army has not significantly changed the extent to which the components of its supply system are covered by stock fund financing. A large volume of item transfers has been made between the stock fund and the major procurement appropriation since this date as a result of the conduct of a purification process designed to segregate expense category from investment category items. This purification was directed throughout the DOD as an element of the Improved Resource Management Systems.[3] Except in the U.S. Army, Pacific (USARPAC), all applicable Army supply system stocks are capitalized in the stock fund. This includes both operating stock and war reserve stocks in depots and all major stations in continental United States (CONUS) and overseas. Only the shelf stocks located at the user level, including the minor operating stocks in small stations, are excluded. Within USARPAC, the stock fund coverage in Hawaii, Japan, and Okinawa is comparable to that in CONUS, except for the exclusion of the operating stocks supporting post engineers and the claimant stocks in Okinawa. The latter is materiel returned from Vietnam that has not been declared excess and is still considered to be the property of that command. In Korea, stocks in depots and in subsistence supply points and clothing sales stores are included in the stock fund, but stocks in other supply points in the field army supply system are not. Stock

[1]Department of Defense Directive 7040.5, Definitions of Expense and Investment Costs, 1 September 1966.
[2]Assistant Secretary of Defense (Comptroller), Memorandum, subject: Working Capital, 17 August 1966.
[3]Department of Defense Directive 7000.1, Resource Management Systems of the Department of Defense, 22 August 1966.

funding of Vietnam stocks is not planned. As qualified personnel and equipment become available, financial control and management will be exercised at the theater senior command level using depot supply status data. Individual major subordinate command requisition and financial status will be visualized, as required, for maintaining unit supply discipline.

b. Navy. The Navy's worldwide supply system stocks of expense category items are financed in the stock fund. This includes stocks afloat in ships of the Mobile Logistics Support Forces (MLSF) but not on combatant vessels, some of which carry inventories of significant size. It includes stocks at shore bases, except at the user level. Within Vietnam the Naval Supply Activity, Da Nang, is stock fund financed, whereas the Naval Supply Activity, Saigon, is not. The latter was initially included in the stock fund but was later abandoned in 1967 in favor of more simplified funding arrangements appropriate for an advanced base. As in the Army, the Navy has had a large volume of item transfers in the purification of the identification of expense category and investment category items. These were especially significant in FY 69 when the net value of additional material capitalized exceeded the total value of the inventories in the stock fund at the beginning of the year. Most of the added items were aeronautical parts.

c. Marine Corps. The supply system stocks of expense items in the Marine Corps in CONUS and Hawaii are financed in the stock fund. Although this policy includes all the station inventories, most of which are accounted for as remote storage activities of the central supply system, it excludes certain pre-positioned reserves held at the user level. Outside CONUS and Hawaii, the stock fund finances only the base stocks of housekeeping supplies in Okinawa. The principal inventories overseas that are not accounted for in the stock fund are the stocks maintained by the Force Service Regiment (FSR) in Okinawa and by the Force Logistics Command (FLC) in Vietnam. The item transfers to and from the stock fund, for purification of the appropriation structure, were minor and were substantially accomplished during FY 68.

d. Air Force. The Air Force included in its stock fund prior to FY 68 only the worldwide inventories of aviation fuels and of items in commissaries and clothing sales stores, as well as the cadet store at the Air Force Academy. As of 1 July 1967, the stock fund was extended in the Air Training Command to include all items not centrally managed in the Air Force, i.e., items purchases locally and items requisitioned from non-Air Force sources, such as Defense Supply Agency (DSA) and General Services Administration (GSA). This extension was a part of the Air Force Priority Improved Management Effort (PRIME) 68 test. It was followed on 1 July 1968 by Air Force-wide extension, except for the Pacific Air Command and the Air National Guard, to cover in the stock fund all expense category items, including those centrally managed by the Air Force Logistics Command. On 1 July 1969, stock fund financing was extended to all the supply accounts in the Pacific Air Command, including those in Vietnam and Thailand.

e. Defense Agencies. Since its organization the DSA has financed through the Defense Stock Fund all its inventories of mission stocks, including items that may be considered as investment when purchased by a using Service. The only stocks exluded are industrial production equipment items that are not procured by DSA but are redistributed after being declared idle by the user. In FY 68 the base operating supplies at two DSA depot activities were financed in the stock fund on a test basis. At the beginning of FY 69, stock fund financing was extended to cover all base inventories of applicable items in DSA, the Defense Atomic Support Agency, and the National Security Agency.

f. Summary. The implementation of the resource management system in 1968 throughout DOD has dictated the Services organization for stock fund operations in CONUS. The PRIME requirement that the stock fund finance inventories until the using organization was ready to expend the item has resulted in nearly uniform stock fund coverage in CONUS. The principal differences in stock fund coverage of the Services occur in their organization of stock fund operations to support combat operations in Vietnam. The differences in Service coverage in this area vary widely and consist principally of the following:

(1) The Air Force use of stock fund to finance base stocks of all bases in Vietnam and Thailand as of July 1969.

(2) The Navy use of stock fund to finance inventories at Naval Support Activity, Da Nang, to support I Corps Tactical Zone and not using stock fund to finance a similar but smaller operation in Saigon.

(3) The Army use of stock fund to finance inventories of the 2d Logistics Command, Okinawa, and the Marine Corps use of O&M funds to finance the 3d Force Service Regiment, Okinawa.

(4) The Army and Marine Corps decision not to use the stock fund for financing inventories in Vietnam.

These service variations in the use of stock fund to finance inventories supporting combat operations in Vietnam are justified on the basis of their different missions, operational requirements, and organization.

3. STOCK FUND MANAGEMENT CHANNELS

a. Army

(1) The Army Stock Fund is centrally managed and directed by the offices of both the Secretary of Financial Management (FM) and of Installations and Logistics (I&L) assisted by the Comptroller and Assistant Chief of Staff, Logistics. Programming and management are accomplished through seven major command divisions and one minor division. The latter is the Defense Supply Service, Washington, D.C., managed by a component of the Office of the Secretary to support activities in the Washington area. The major divisions include two under the Army Materiel Command (AMC) and one each under the Continental Army Command (which covers 46 branch offices managed through five intermediate commands) and the overseas commands. Management in the Pacific had been centralized in Hawaii at the beginning of FY 65. The Army decided in February 1966, however, that a decentralized system was preferable and by 1 July 1967 all supply control functions had been returned to the subordinate commands in Hawaii, Japan, Korea, and Okinawa. All stock fund accounting and reporting was decentralized by 1 January 1968.

(2) The AMC manages both an Installations Division (which covers base level stocks in 47 branch offices under nine intermediate commands) and a Command Division. The latter division finances procurement of all the Army's centrally managed stock fund items at the seven commodity commands. It also covers nine other subdivisions, involving five other subordinate commands. These subdivisions finance war reserves held by AMC of items not managed by the Army and act as clearing accounts for certain transactions related to such items that are in transit to and on order for using commands and military assistance programs.

(3) The Army's system of management through command channels is referred to as horizontal extension of the stock fund, as distinguished from vertical extension, in which management of items in a specific commodity category is programmed and controlled through all the levels and commands in the supply system. From 1952 until the beginning of FY 65, the Army had used the vertical system. Each of the command funds in the Army's horizontal system, however, uses prescribed commodity categories for breakdowns of its supply transactions and balances so that full knowledge and visibility of financial data on a commodity basis exist in the horizontal system. As an exception to the horizontal system, a test of a limited number of critical items was initiated in May 1968 as Project OASIS.[4] Ownership of retail levels of

[4]AMC Ownership and Accountability of Super High Dollar Value Secondary Items in Overseas Theater Depots (OASIS).

about 1800 stock fund items in the test was transferred to the AMC commodity commands from the user commands. Management control over the retail inventories also was transferred, a departure from the manner in which the Army had previously operated vertical stock funds (prior to FY 65). Continued test of a modified system to supersede Project OASIS as of 1 July 1970 is planned. By centralizing item visibility through item managers, as prescribed in the pure horizontal stock fund systems, improved management should result.

b. Navy

(1) The Navy Stock Fund is managed by the Naval Supply System Command, with limited guidance and supervision from higher echelons in the Naval Material Command, the Office of the Chief of Naval Operations, and the Office of the Assistant Secretary of the Navy (Financial Management). During the past 2 years, procedures have been developed for the staff of the Office of the Comptroller to work jointly with the Naval Supply Systems Command in developing the financial program for the stock fund and to minimize the subsequent review and any additional program adjustments by the staff offices or Secretarial level of the Department.

(2) Management of the Navy Stock Fund is exercised on a vertical commodity category basis through seven control points. Only three of these are conventional national inventory control points managing items that are primarily centrally procured by the Navy. A fourth manages forms and printed matter. The other three involve retail commodities, but each is different.

(3) The Navy Fuel Supply Office deals with a small number of items involving large quantities and high dollar value. It exercises centralized control on an item basis. The Subsistence Supply Office is primarily a central programming and systems office for the ship's store and commissary store stock category, with full decentralization of inventory management to the base level. The Fleet Material Supply Office (FMSO) also deals with base level retail inventories that are managed on a decentralized basis subject to control on a summary financial basis. Under FMSO are separate vertical commodity categories for retail provisions, clothing, and other GSA- and DSA-managed commodities. Also under FMSO is a relatively new retail inventory system category that covers the complete base stocks at about 80 of the smaller bases. Program management is exercised through command channels. During FY 70 more than 10 percent of the Navy Stock Fund sales were made through this retail inventory system. Further extension is planned but the extent and timing are unclear. Accounting and reporting at the Navy bases on the retail system does not provide for classification of transactions on a commodity category basis, although the semiannual inventory stratifications identify the balances by commodity categories.

c. Marine Corps

(1) The Marine Corps Stock Fund is managed and administered by the Quartermaster General of the Marine Corps. The financial program is subject to review by the fiscal director prior to its approval by the Commandant. Guidance and review by the staff offices of the Department of the Navy and by the immediate office of the Secretary are generally the same as for the Navy Stock Fund.

(2) The program for the Marine Corps Stock Fund reflects seven categories of materiel. Subsistence and commissary stores are managed directly by the Quartermaster General, with decentralized item management and summary financial programs for each of the 11 station commissaries. The other six categories are centrally managed by the Marine Corps Supply Activity, Philadelphia. Stocks of the centrally managed items in the Marine Corps system at all stations in CONUS and Hawaii are owned by the inventory control point until issued. However, some locally purchased retail stocks of decontrolled items are separately managed at the station level under a summary financial program received directly from the Quartermaster General.

d. Air Force

(1) The Air Force Stock Fund is managed in seven divisions under the general supervision and guidance of the headquarters, exercised through the Comptroller and other subordinate commanders with limited attention from the Office of the Secretary of the Air Force. A small division finances the stocks in the Cadet Store and is managed by the Air Force Academy. Another finances retail stocks of medical and dental materiel and is managed on a summary financial basis by the Air Force Surgeon General through a field office in Phoenixville, Pennsylvania. The other divisions are managed by components of the Air Force Logistics Command (AFLC). The divisions, covering the retail stocks in clothing sales stores and subsistence commissaries, respectively, are managed on a summary financial basis by a support office in Philadelphia. The Fuels Division covers all fuel and related items and is centrally managed at the San Antonio Air Materiel Area. The General Support Division and the Systems Support Division are managed at AFLC Headquarters. The General Support Division covers retail stocks of locally purchased and non-Air Force managed items. It is, in effect, a horizontal fund controlled through command channels on a summary financial basis. The Systems Support Division covers all centrally managed expense category items and finances worldwide depot and base stocks. Subdivisions are managed by the five Air Materiel areas for assigned categories of items. Control of base stocks is essentially accomplished through a centrally programmed computer system that establishes at each base the stock lists, stock objectives, and reorder points. However, the central inventory manager is able, if necessary, to redistribute item stocks or take other management actions to improve support of customer requirements or to ensure adherence to financial program objectives.

e. Defense Agencies. The Defense Stock Fund includes a large division managed by the DSA and small retail divisions managed by the Defense Atomic Support Agency and the National Security Agency. Within DSA, seven commodity categories are separately programmed and managed through five inventory control points that operate the wholsesale system within CONUS. In addition, the retail operating supplies at the eight installations managed by DSA are administered as an additional category through summary financial programs authorized directly by the headquarters.

f. Summary. Although the channels for management of the Services and Defense Stock Funds appear to be separate, a common pattern exits. In every case the financial management channels used are consistent with assigned supply support responsibilities. Maintenance of this consistency is essential to effective management.

4. CAPITAL TRANSFERS AND CASH BALANCES

a. Between 31 December 1954 (upon expiration of authority granted in 1949 legislation to provide capital for the working capital funds by administrative transfers from other accounts) and 25 March 1966, the DOD could increase or transfer the cash working capital of a stock fund only by obtaining congressional authorization in an appropriation act. With the enactment of the Supplemental Defense Appropriation Act, 1966, transfers were authorized between working capital funds during the current fiscal year in such amounts as determined by the Secretary of Defense with the approval of the Bureau of the Budget (BOB). This provision has been repeated in each subsequent fiscal year. This transfer authority minimizes the necessity for requesting congressional approval for an augmentation of one of the stock funds when increased requirements occur. Also, when the increased need is not anticipated in time for inclusion in a scheduled budget cycle, the transfer authority can be exercised with little delay. Even though the transfer authority is available for use only when cash capital can be spared by another fund, the impact of changing programs usually differs between Services and on the different funds, so that the transfer capability is of definite value. In the review of the annual budget estimates, it has become customary for the Office of the Secretary of Defense (OSD) to consider the comparative actual and forecasted cash positions of all five stock funds in a consolidated Program and Budget Decision. Planned transfers between working capital funds are established on the basis of the approved programs for each fund to provide a balanced cash availability in each fund.

b. Table 9 identifies the changes in stock fund capital that have occurred through appropriation and transfer actions between FY 65 and FY 69 and those currently planned in FY 70 and 1971 on the basis of the OSD and BOB review of the FY 71 budget estimates. Although only one actual and two planned transfers are based on the transfer authority in the general provision, the value of the provision and the desirability of converting it to a permanent basis are generally recognized in the DOD. An alternative consideration has been to propose consolidation of the five stock funds to one. This would provide complete flexibility in the utilization of the working capital in all stock funds, but would have little other significance from a programming, accounting, or management standpoint. It would actually provide less flexibility than the current general provision, however, since all working capital funds — including the five industrial funds in which the aggregate Government equity was $423 million at the end of FY 69 — are covered with the stock funds in the existing transfer authority.

TABLE 9

CHANGES IN STOCK FUND CASH CAPITAL BY APPROPRIATIONS AND TRANSFERS
(In Millions of Dollars)

Fiscal Year	Army Stock Fund	Navy Stock Fund	Mar Corps Stock Fund	Air Force Stock Fund	Defense Stock Fund
Actual					
1965	-35	0	0	-41	-117.3
1966	0	0	0	0	-30
1967	+351	+77	0	0	+107
1968	+60	0	+30*	-30	+118.4
1966	-360	-325	0	-525	-300
Proposed (FY 71 Budget)					
1970	0	+27*	0	-300	-127
1971	-220	+97*	0	-67	-72

*Based on authority for Transfer between working capital funds.

c. In FY 65, the stock funds were generating cash from the liquidation of long supply inventories that did not require replacement when sold. The President's budget had proposed transfers to other accounts totaling $200 million, which were increased by the Congress to $240 in the Appropriation Act. The actual transfers were only $193.3 million because the gaining accounts were determined at the end of the year not to need the full amounts.

d. In the FY 66 Budget, continuation of the inventory liquidation was planned, with rescissions (transfers out) of a total of $470 million. With the exception of a transfer of $20 million from the Defense Stock Fund to the Defense Industrial Fund to provide the initial capital for the newly established Defense Communications System, none of these transfers was actually made. However, the transfers were included by the Congress in the basic Appropriation Act (September 1965) so that the Congress would not need to increase the new obligational authority to offset their deletion. In the Supplemental Defense Appropriation Act, 1966, new obligation authority was provided, as requested by the President, to replace the amounts that could not be transferred from the stock funds.

e. In the meantime, the cash impact of the increased inventory levels required to support the escalating operations in Vietnam was greater than the relief afforded by this action. To accommodate these requirements without new appropriations, the Supplemental Defense Appropriation Act, 1966, also provided relief from the DOD legal interpretation of Section 3679 of the Revised Statutes: that cash balances were required to cover the amount of outstanding accounts payable in each stock fund. The general provision added for this purpose, which has been included in each subsequent annual appropriation, states that cash balances need to be maintained only in the amounts necessary for cash disbursements. This is currently Section 639 of the Defense Appropriation Act, 1970.) The extent of the relief granted by this provision is indicated by the fact that reported accounts payable in the five stock funds at the end of FY 66 totaled $790 million. The aggregate cash balances of the funds declined from $806 million at the beginning of the fiscal year to $547 million at the end of the year. The increased turnover rate of this cash balance is evidenced by the fact that gross expenditures averaged $765 million per month in FY 66 and $1,052 million per month in FY 67.

f. The President's budget for FY 67, as submitted in January 1966, did not propose any changes in the capital of the stock funds. By the beginning of the fiscal year, however, the need for additional cash in the Army, Navy, and Defense accounts was recognized and funds were included in the Supplemental Defense Appropriation Act, 1967, which was enacted 4 April 1967. Further increases in cash were provided to the Army and Defense accounts in the DOD Appropriation Act, 1968, enacted 29 September 1967. The requirements of the Marine Corps Stock Fund were met by the FY 68 transfer from the Air Force Stock Fund. During these 2 years, however, the aggregate cash balances of the stock funds declined to $464 million at the end of FY 67 and $302 million at the end of FY 68. There were repeated occasions during this period when most of the funds were forced to take extraordinary management actions as a result of critically low cash balances.

g. During FY 69 most of the stock funds were again generating cash through liquidation of inventories built up to support anticipated demands higher than were actually occurring and through the effect of capitalizing additional commodities. Transfers totaling $1,510 million were made to the procurement appropriations, with the result that the cash balances again declined to a low of $248 million at the end of FY 69. Continuing pressure from the OSD to ensure that stock fund management would accomplish the scheduled cash generation was necessary during the year.[5] Even so, all of the transfers would not have been possible without advance payments for unfilled orders made by customers of the Army and Navy Stock Funds, as an exception to normal operating procedures.

h. The programs for FY 70 and FY 71 contemplate net rescissions in much smaller amounts than in 1969, while liquidating the advances from customers and increasing the total cash balances to $493 million at the end of FY 70 and to $788 million at the end of FY 71. The additional cash requirements of the Navy Stock Fund are planned to be satisfied by transfers from the Air Force and Defense Stock Funds in which a continuing liquidation of long-supply inventories is scheduled.

i. It is doubtful that the recognition being given in the FY 71 budget to relieving the administrative problems created when cash balances are disproportionately low, in relation to the volume of business, is adequate. From FY 66 to FY 70, a factor of 1 1/2 percent of planned collections and expenditures was used by OSD to compute the principal part of the cash balance requirement, as a safeguard against unpredictable variances in the cash flow estimates. In the FY 71 budget, this factor has been increased to 2 1/2 percent to provide a higher degree of protection. With the increased factor, the cash balance should approximate 2.6 weeks of disbursements, rather than 1.6 weeks. Considering the rapidity and magnitude of potential program changes, however, it would appear that a variance factor of at least 30 days should be a minimum after programming to standard levels of accounts receivable and accounts payable. With such a higher cash balance, there would also be a somewhat greater capability to finance a surge in requirements in connection with any new emergency, pending the review of revised program levels.

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[5] Deputy Secretary of Defense (Comptroller), Memorandum, subject: Stock Fund Cash, 15 February 1969.

j. Although the appropriation and transfer actions between FY 65 and FY 69 show net withdrawals of cash working capital in all stock funds except the Marine Corps, the extended use of stock fund financing resulted in substantial increases in the net investment of the Government, as recorded in the stock fund accounts. This development is shown in Table 10.

TABLE 10

GOVERNMENT EQUITY IN DOD STOCK FUNDS
(In Millions of Dollars at End of FY)

Fiscal Year	Army Stock Fund	Navy Stock Fund	Mar Corps Stock Fund	Air Force Stock Fund	Defense Stock Fund	Total
1965	2,389	983	230	401	2,257	6,259
1966	2,633	956	234	400	2,329	6,552
1967	3,388	1,103	240	422	2,686	7,889
1968	3,611	1,072	247	377	2,972	8,279
1969	3,406	1,922	281	2,475	2,888	10,971

Note: Changes are due to appropriation and transfer actions, operating gains and losses, and inventory transfers (capitalizations and decapitalizations) between accounts.

5. MANAGEMENT CONTROLS AND RESTRAINTS

a. The programming of every stock fund activity is based on the approach reflected in the standard operating budget format prescribed by OSD. The stock fund operating budget is a forecast of the items to be issued during the budget period and of the items required to be on hand and on order at the end of the period to support continued operations, offset by the estimated application of the assets available and new procurement required during the period. The determination of requirements estimates and the stratification procedure for estimating the applicability of inventories are governed by supply policies and by the plans and objectives of using activities. The factors are further influenced by financial policies or considerations to the extent necessary to ensure realism and reasonable judgment in balancing the results to be accomplished with the cost of acquiring and maintaining the desired inventory levels. This procedure can be followed on an individual item basis, priced to provide dollar amounts, or it may be developed for groups of items on a summary dollar basis. The financial programs for divisions or control points managing thousands of items are necessarily stated in dollar summaries, regardless of the extent to which they are based on individual item supply control and analyses.

b. When a program for a stock funds has been developed and approved as a reasonable statement of what should be done on the basis of the policies and assumptions or estimates accepted as being proper, the primary purpose of any management control or restraint is to ensure (1) that item managers proceed in accordance with the policies and objectives approved, and (2) that attention will be directed to any area (a) where actual requirements develop differently from those anticipated in the preparation of the program or (b) where management actions are not consistent with the approved policies and objectives. The purpose and the concept are substantially the same whether used by a higher headquarters in administering a subordinate activity or by an inventory control point in administering internal commodity management elements. Financial controls cannot ensure that good judgment is reflected in all management actions, but they do provide a means of measuring the results that are accomplished in relation to those planned and provide assistance to the manager in identifying any part of the supply system that is not functioning as anticipated.

c. The principal method of financial control in the Department of Defense is based on the provisions of Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665). This law, known as the Anti-Deficiency Act, requires annual appropriations to be apportioned in a manner that will prevent exhaustion of the funds before the end of the period covered and requires no-year funds to be apportioned to achieve the most effective and economical use. Apportionment is the authorization of the use of obligation authority in an appropriation or fund as made by the BOB. Within the DOD, allocations and allotments are comparable authorizations. These controls apply only to the obligations that may be incurred. Other or additional administrative controls may also be utilized, such as the establishment of limitations or targets for expenditures, accrued costs, or inventory levels.

d. The DOD has found that a stock fund program cannot really be expressed in terms of an obligation limitation alone, although such a limitation does serve to call attention to changes in program requirements that result in a need for adjusting the planned obligations. A stock fund program reflects the interrelationship of the many factors on which it is based and is best expressed as a series of time-phased objectives that include sales, commitments, obligations, receipts from procurement, disbursements, inventory on hand, and inventory on order. The amounts of these objectives are designed to reflect appropriate actions to supply current demands and to adjust inventories at all times to the optimum levels. Where an element of a stock fund is being programmed and managed in this manner, the apportionment system of control, as such, is not really significant, since it is not the primary means of avoiding unnecessary obligations or achieving the most effective and economical use of the funds.

e. Of the five stock funds in the DOD, parts of two are currently exempted from apportionment. (Under the statute, the BOB is permitted to exempt working capital funds from apportionment.) These are the Continental Army Command Division in the Army and five of the seven Divisions in the Air Force (excluding only the large General Support and Systems Support Divisions). The exemption from apportionment does not diminish the program control exercised by OSD over these divisions. Its advantage to DOD is limited to the timesaving of processing a program adjustment formally through the BOB, which involves from 1 to 15 days. The partial exemption has the disadvantage of complicating the formats used to express the programs. Because of these facts, little interest has been shown in the Services and agencies other than the Air Force in obtaining or extending any partial exemptions from apportionment. The exemption of an entire fund would be desirable, however, since it would eliminate the necessity of using the apportionment form (DD Form 1105). This form includes a number of technically defined entries required by the BOB, so that its preparation is not simple and it is relatively meaningless without supporting schedules to identify the real content of the programs to which it is related. Substitution of a DOD form more applicable to stock fund operations to record the request for and approval of a stock fund program would be a distinct improvement

f. It is not unreasonable to anticipate that the BOB will give favorable consideration to exemption from apportionment for all stock funds in the DOD. During the Vietnam era, the Bureau has approved all OSD requests, without adjustments. This procedure has been possible because the BOB staff has participated informally with the OSD staff in the detailed reviews of all stock fund programs and because the Secretary of Defense and Assistant Secretary (Comptroller) have been kept closely informed of Bureau (and Presidential) policies requiring consideration. As a result, Bureau approval was substantially ensured before submission of each apportionment form. This informal coordination would be expected to continue if the use and formal approval of the Form 1105 were dropped. It will be necessary, however, to convince the Bureau that stock fund program control in OSD and in each of the departments and applicable Defense agencies functions in a manner that ensures effective and economical use of the funds so that the apportionment process is not needed. After exemption under these conditions, BOB influence on stock fund programs would be much the same as at present. The BOB power to withdraw the exemptions from apportionment would ensure that its participation could not be rejected and that both OSD and Bureau staff would be reasonably certain to continue to be responsive to Presidential guidance.

g. Financial controls do not act as constraints if (1) actual requoirements do not exceed the approved program; (2) management errors or misjudgments do not result in overprocorement of some items, leaving inadequate funds for other item requirements; or (3) changes in requirements can be identified and timely revisions of the approved programs accomplished. Because departures from these conditions occur from time to time, instances have occurred where financial constraints served to delay the procurement of needed items. Such an event is inherent in a complex supply system where both human and machine errors can occor. Without the constraints, both discovery and correction of the errors is more difficult. In this respect, the constraints are clearly a management tool without which logistical sopport is more costly. Moreover, the constraints are an essential means of ensuring that subordinate command levels cannot prejudge program change decisions and initiate actions that are not approved.

6. STOCK FUND FINANCIAL PROGRAMS IN THE VIETNAM ERA. The apportionments of stock funds during the Vietnam era are summarized in Appendix B. Apportionment requests were frequently accompanied by transmittal letters sommarizing the basis for the submission and by more or less volominous justification data (as prescribed by DOD Manual 7110-1-M and as supplemented by the requesting agency). Additional justification, as well as more detailed explanations, was usually presented at informal hearings held by the reviewing staffs, sometimes at the management control points in the field. The action by the reviewers is sometimes recorded in letters and markup schedules, and often in supplemental verbal comments. Because of the varied and informal procedures and general lack of effort to document fully on the record the basis for each action proposed and taken, it is virtually impossible to reconstruct in detail the complete history of these numerous financial program changes. The observations summarized in the following paragraphs are drawn from review of as many of the apportionment records and other related data as it was practicable to locate and examine.

a. Program changes were too numerous and frequent for efficient operations. The causes were more or less unavcidable under the circomstances but greater effort to minimize the changes should have been made.

(1) The manner in which military force requirements for SE Asia were established is reviewed in detail in the Military Personnel in Operational Logistics Monograph Included in the JLRB review. Both the manpower strengths and the types of units to be deployed were constantly changing and plans for additional changes were constantly being prepared and reviewed throughoot the Vietnam era. Under these conditions, also involving fluctoating activity rates in military operations, the consumption rates for most items of expense materal were variable and difficult to forecast.

(2) The effect of varying requirements was accentoated by deficiencies in the availability of management information data relating to sopply status of materiel in transit to and in Vietnam and by deficiencies in the processing of requisitions. These deficiencies had the effect of misleading CONUS inventory managers as to what the real reqoirements were.

(3) The flow of program guidance from the Secretary of Defense to the Inventory managers was Inadequate. Development of program changes in the proper order of magnitude and on a timely basis was handicapped by the difficulty of determining at the working level what the real program objectives were at any given time. Greater initiative and leadership in giving direction to the inventory managers and to those processing their financial programs woold have facilitated the support of logistic operations. When significant changes in plans were under consideration and when marked increases in the probability of contingency requirements were recognized, more prompt and clear guidance with respect to improving the capability to meet higher requirements for the types of materiel most likely to become critical should have been provided.

(4) In the opinion of the DOD reviewing authorities the judgment displayed by certain inventory managers in managing their program was questionable. The programs for the commodities managed were subject to particularly critical review. The results of this review indicated a need for management improvements. Until supply management improved, continued buying of quantities of the wrong items accompanied by constrained buying of needed items persisted.

b. Lack of obligation authority when needed has not been a problem within any stock fund, although stock fund inventory managers at times have lacked the authority to use obligation authority that they considered to be needed. Statutory authority exists in 10 U. S. C. 2210(b) to utilize anticipated reimbursements to an indefinte extent as a basis for incurring obligations. The use of this authority is subject to the control of the Secretary of Defense and the approval of the BOB. These controls do not diminish the value of the flexibility in obligation authority provided, but do illustrate that its effectiveness depends on the administrative skill and wisdom of judgment with which program decisions are proposed, justified, and approved. A stock fund is a revolving fund whether centrally managed at the departmental level or controlled by lower management echelons.

7. CONCLUSIONS AND RECOMMENDATIONS

a. Conclusions

(1) Supply system inventories of expense items, including stocks at both wholesale (depot) and retail (base) levels, are of such magnitude in dollar value and/or in number of items that both financial management and item supply control techniques are required. The classical concept for the use of stock funds with adequate capitalization when not constrained by apportionment procedures could be an effective and efficient procedure for financing those supply system inventories that support and complement the user stocks.

(2) Within the broad framework of established OSD stock fund policy, the Services must have the flexibility to organize their stock fund operations in a manner that best supports the accomplishment of their assigned missions.

(3) The Office of Secretary of Defense procedures of stock fund program review and control make the Bureau of the Budget apportionment of stock funds unnecessary to ensure the most effective and economical use of the funds.

(4) The authority to maintain minimum cash balances in and to transfer capital between working capital funds has been provided on an annual basis since FY 66. These procedures will be needed indefinitely for efficient management of resources.

(5) Stock fund cash balances have in general been too low since the end of FY 66 in relation to the volume of business processed. For example, the aggregate cash availability in all stock funds on 1 July 1969 was $253 million, only slightly more than the $230 million average weekly rate of disbursements now anticipated for FY 70. Because the maintenance of higher cash balances for the stock funds on the books would have little, if any, effect on withdrawals of cash from the treasury. there is no real cost to the Government from authorizing the higher balances.

b. Recommendations. The Board recommends that:

(FM-2) The Office of the Secretary of Defense establish with the Bureau of the Budget the conditions required to obtain apportionment exemptions for stock funds and a schedule for qualifying each fund for exemption (conclusions (1) and (3)).

(FM-3) The Office of the Secretary of Defense seek permanent statutory authority (replacing the general provision included annually in the Defense Appropriation Act) to permit sufficient cash balance of working capital funds to be only the amount needed to cover disbursements and to authorize transfers of capital between working capital funds (conclusions (2) and (4)).

(FM-4) To support sound management, the Office of the Secretary of Defense program more adequate cash balances in stock funds, including a greater allowance for unanticipated program changes, so that the planned balance in each fund should be equal to at least 30 days of disbursements (conclusion (5)).

CHAPTER VI

INVESTMENT COSTS – CONSTRUCTION

1. INTRODUCTION. This chapter discusses the financial management procedures employed in the Vietnam construction effort and the adaptability of these procedures to contingency operations. Unlike funding in other wars, the funding of the majority of this construction effort was through Military Construction (MILCON) Appropriations, and peacetime programming and budgeting procedures. Comments received by the Joint Logistics Review Board point to the adverse effects experienced through use of these procedures. Stressed also was the need for a better balance between the flexibility provided to the combat commander in the use of construction funds and the control of the overall effort retained at the Washington, D.C., level. Findings of previous studies and reports on construction in Vietnam have emphasized that a continuing division exists at various echelons between those individuals desiring program and financial control for each item at the Washington level and those desiring complete flexibility in the accomplishment of construction in the combat area. Areas addressed in paragraphs 4 to 8 of this chapter are discussed in the Construction Monograph and will not be discussed in detail in this chapter.

2. DEFINITION OF INVESTMENT COSTS

> ".... Investment costs are those costs usually associated with the acquisition of equipment and real property. Construction, including the cost of land and rights therein, is also an investment cost for program-budgetary purposes. Construction is the erection, installation, or assembly of a new facility; the addition, extension, alteration, conversion, or replacement of an existing facility; the acquisition of a facility, etc. Construction is distinguished from repair or maintenance in that repair or maintenance has the effect merely of keeping the asset in its customary state of operating efficiency. Construction includes equipment installed."[1]

3. OBJECTIVE. The objective of financial management systems for MILCON is to control funds authorized for construction within the appropriation, apportionment, and obligating authority specified by law. As stated in Chapter III of this monograph, the system must accomplish this objective in consonance with Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665), and the desires of Congress and other agencies' requirements for financial information. Inherent in this objective is the concept of providing the most effective and economical management of construction funds through the financial procedures prescribed.

4. CONSTRUCTION FINANCIAL PROCEDURES

a. Decision to Use MILCON Funds. Prior to FY 65, funds made available for construction in the Republic of Vietnam were primarily through the Military Assistance Program (MAP) and for the Republic of Vietnam Armed Forces. Subsequent to the Tonkin Gulf incident, the Secretary of Defense, by memorandum of 2 September 1964, directed that construction costs related to the deployment of nonadvisory units be funded from appropriations available to the military departments rather than MAP.[2] Further, obligations and expenditures incurred against MAP funds for certain specified projects previsouly approved under the MAP but

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[1] Department of Defense Instruction 7040.5, Definition of Expense and Investment Costs, 1 September 1966.

[2] Secretary of Defense, Memorandum, subject: Funding of Costs of U.S. Force Buildup in Vietnam, 2 September 1964.

required for nonadvisory units were to be transferred to or reimbursed by applicable military department appropriations. Although the Secretary of Defense memorandum did not specifically state that the construction requirements of U. S. forces would be financed by MILCON appropriations, the implementing guidance essentially placed programming on the MILCON including its many time-consuming procedural constraints. This resulted in an extensive discussion of the programming and funding procedures to be employed in the Vietnam construction program. The final decision was to sponsor construction requirements of U. S. forces in Vietnam through the MILCON program and to integrate Vietnam MAP construction requirements into the MILCON system.

b. Responsiveness. The first action to improve the responsiveness of the MILCON system for construction in Vietnam was proposed by the Secretary of Defense to the Chairman of the Subcommittee on MILCON Appropriations.[3] This letter proposed that the Office of the Secretary of Defense (OSD) be granted the power to authorize urgently required construction as necessary, using the authorization of Sections 102, 203, and 303 of PL 88-390 and available MILCON funds. The letter also proposed that the subcommittee be advised concurrently or as soon thereafter as possible, of the work involved, the reason therefore, and an estimate of the line items of construction required. It was proposed that this revised procedure be employed for the balance of the fiscal year and be limited to South Vietnam requirements.

(1) As far as the Services were concerned, these revised procedures granted relief only at the OSD level. The detailed flow of paperwork, justification, and definition were not relaxed. To use any of the reprogramming authority made available, funds had to be taken from previously authorized and funded MILCON projects. In addition, forfeiture of authorization for the latter projects was required. This was an unusual stipulation of the FY 65 authorization, which fortunately was eliminated in future authorizations.

(2) Considerable concern was expressed by the Secretary of the Navy and Commander in Chief, Pacific (CINCPAC), relative to these MILCON programming and funding procedures. The need for procedural changes to the normal MILCON system was apparent. Questioned was the form and extent of changes required. One of the actions taken was to include in the proposed bill for FY 66 a request for both authorization and funds in the amount of $50 million to be available to the Secretary of Defense to meet emergency construction requirements. Previous emergency authorizations had not been funded and therefore required reprogramming from the items already authorized and funded. Although both the reprogramming authority regarding the FY 65 program as well as the $50 million contingency funds were granted to the Secretary of Defense, skepticism and caution were expressed by some of the members of the Subcommittee on MILCON Appropriations. These members had serious reservations about extending this blank check authority to the Department of Defense (DOD). Despite these reservations a number of blanket appropriations representing appreciable funds were made available in the ensuing months.

c. Major Appropriations. The appropriation of large quantities of MILCON funds for Vietnam construction started with FY 65 Supplemental Appropriation and continued until 26 September 1968 through the passage of supplemental and regular appropriations. It is significant to note that in the dynamic combat environment of the Vietnam conflict, specific and detailed construction requirements could not be forecasted with a high degree of accuracy far in advance of needs. A flexible construction capability was the ultimate goal, and not the peacetime process whereby complete construction plans and specifications were to be available for determination of precise construction capability requirements. Since a modified but essentially peacetime MILCON procedure was employed, the programming, reprogramming, reevaluation, rejustification, and resubmittals, with all the attendant administrative burdens, resulted in delays. Evolved over many years, primarily to satisfy peacetime construction requirements, the system provided maximum visibility and tight centralized controls. However, the procedures involved were laborious and time-consuming and lacked the flexibility and quick response

[3] Deputy Secretary of Defense, Letter, 6 March 1969.

desired in a dynamic warfare situation. More specifically, the evolution of the major construction programs was characterized by the following:

(1) Programming and funding procedures employed to control the construction program in Vietnam were oriented essentially toward peacetime military construction. These procedures did not provide the unified and Service commanders with the degree of flexibility required.

(2) Procedural constraints, although properly recognized from the outset, were never adequately resolved.

(3) The formulation and enactment of the MILCON portion of the FY 65 Supplemental Appropriation was most responsive, requiring less than 1 month to complete. The Congress required less than 4 days to consider and pass the entire appropriation.

(4) The request for construction funds, as submitted to the Congress and applicable to the FY 65 Supplemental and the FY 66 Amendment Appropriations, did not adequately reflect the theater commander's stated requirements.

(5) Funding constraints prior to 1966 resulted in the mobilization of a construction capability that was both minimal and piecemeal and appreciably below the stated requirements.

(6) There was little resemblance between facilities originally programmed and those ultimately constructed. The formulation and review of the MILCON program by line item rather than gross requirements and the resubmittals and reevaluations were both time-consuming and to a large extent served no useful purpose.

5. PROGRAM FLEXIBILITY. The degree to which flexibility was provided to both the Services and the Commander, United States Military Assistance Command, Vietnam (COMUSMACV), prior to 1966 was extremely limited, untimely, and of little value owing to the paucity of funds and the peacetime limitations and procedures that had been imposed. The initial flexibility of any consequence was promulgated to COMUSMACV in January 1966 and provided the theater commander with 15 large accounts per Service. Each account constituted program authorization for a specified scope to be constructed any place in-country and included the authority to increase the amount in any account by up to 10 percent as long as the sum total of all accounts was not exceeded. Although prior OSD approval was required to exceed the 10 percent limitation, such approval could be assumed if a reply was not received within a 30-day period.

a. By contrast, new procedures established in early 1967 provided COMUSMACV with approximately 30 accounts for each Service. As in the former case, each account constituted authorization for a specified scope; however, in this case, major location was also specified. With a total of 19 such locations, the original 15 entities to be managed became subdivided into more than 500 accounts for each Service. Although the 10 percent flexibility feature was retained, its application was now limited to previously approved projects. Further, since the flexibility base susceptible to the application of this 10 percent factor had now been subdivided, the true flexibility, in effect, became correspondingly more than 30 times smaller.

b. Emergency requirements were recognized by granting COMUSMACV the authority to start the construction of any project he believed to be urgently required; however, if it exceeded the authority he now possessed, it was subject to OSD veto. To paraphrase Brig. Gen. Raymond, former MACV Director of Construction, flexibility had essentially been maintained; however, the new system imposed a monumental paper workload because many separate projects and copies of all amendments were required by the DOD. One reprogramming action could involve as many as 5 to 10 amendments to construction directives. The procedures applicable to the Vietnam program were altogether much too complex, involved too many people, and generated far too much paper work. Procedures should not be changed completely during a

contingency operation, let alone more than once; nor should different procedures be made to apply to different appropriations within the overall program. The key point is the need to assign authority commensurate with responsibility to the unified commander and his subordinates, subject to overall controls of the construction programs of the Services and of the total program. It is questionable that a meaningful review and analysis of the details of changing requirements in a dynamic construction program can be accomplished in a responsive manner except in-country. A simpler system is required in support of contingencies. Such a system should preclude the recurrence of the programming weakness experienced in Vietnam, especially in the area of flexibility, which was characterized by the following significant constraints:

(1) The need for flexibility was recognized by the unified commander; however, prior to 1966 the extent to which it was provided was negligible.

(2) There were no statutory limitations affecting the granting of flexibility and, although Congress essentially provided the Secretary of Defense with full authority in this regard, it was not further delegated except as noted in 1966.

(3) The flexibility provided by the merging of unexpended MAP funds with MILCON funds was not exploited by COMUSMACV.

(4) In reducing the degree of flexibility previously authorized, the authority for reprogramming largely reverted to OSD, and the procedures established resulted in an unprecedented amount of unproductive paper work.

(5) The decision to return program and fiscal controls from a category to a line item basis resulted in a return to peacetime procedures inconsistent with the dynamic conditions and environment of the situation.

(6) The unmodified application of the full funding concept precluded full utilization of the construction capability that had been mobilized in Vietnam.

6. APPROPRIATION ALTERNATIVES. Various appropriation alternatives were proposed during the Vietnam conflict. The Department of the Army position was that legislation be sought authorizing the use of available Operations and Maintenance (O&M) funds for the construction of certain facilities in foreign countries designated by the Secretary of Defense as areas in which U. S. forces might be subjected to hostile fire. Although COMUSMACV and Commander in Chief, U. S. Pacific Fleet (CINCPACFLT), urged the use of MAP funds and noted the availability of numerous precedents for same, the costs of major construction requirements in Vietnam were funded from MILCON appropriations. By way of contrast, construction costs incurred during the Korean War were financed with O&M funds, which was in keeping with the Army position as previously stated. Further, similar costs experienced during World War II were financed from a single war support appropriation and increased as the need for more funds occurred.

7. CONCLUSION AND RECOMMENDATION

a. Conclusion. A dynamic warfare situation, such as the Vietnam conflict, results in rapidly changing requirements for urgent military construction. Although some modifications and adjustments have been made, the procedures for justification, programming, and budgeting extended well beyond that needed for the overall level of effort and program control, and continued to be basically the same as that used in peacetime—the line item oriented military construction process. These procedures involved much extraneous administrative effort, introduced undesirable time delays, were not sufficiently flexible, and imposed difficulties in the application of construction resources. In short, military construction procedures proved to be unsuitable for use in a warfare situation.

b. Recommendation. (The Construction Monograph contains a recommendation for the establishment of a new Contingency Construction Appropriation.)

CHAPTER VII

INVESTMENT COSTS – MAJOR ITEM PROCUREMENT

1. INTRODUCTION. This chapter addresses financial management and its role in the procurement of major items required to support contingency operations. A background summary is provided and problems inherent in procurement are identified. The chapter also includes a review and analysis of financial policies in force during the Vietnam era as well as conclusions and recommendations for improving the system.

2. BACKGROUND. Financial management procedures for budgeting and funding for the procurement of major items of equipment, spare parts, and ammunition to support combat operations in Vietnam have been the same as prescribed for all peacetime procurements. One possible exception to this assessment is the rapid tempo with which some priority procurements have been executed. The budget-funding cycle followed the sequence requirements expressed in the Five-Year Defense Program document, and procurement of end items was accomplished in accordance with the Materiel Acquisition Plans.[1] To satisfy inquiries presented by the Offices of the Assistant Secretary of Defense (Systems Analysis) and congressional committees, detailed line item justifications were required. Supplemental, amended, and annual budget submissions were all used to request military apporpriations for procurement. The Department of Defense (DOD) Planning, Programming, and Budgeting system (PPBS) is a complex compilation of military objectives requirements, force levels, resources, costs, and systems concepts supported by operations research analysis. Financial management is an inseparable part of the total system. At the apex of the entire pyramid are the national and defense objectives. Requirements for materiel and other resources are the basis for plans, programs, budgets, and funds management. Changing or undetermined requirements impact on programming, budgeting, and funding in all aspects of the system. In a dynamic situation such as Vietnam from 1965 to 1968, requirements forecasting was imprecise and difficult. This budgetary procedure is explained further in Appendix A of this monograph. Historically, problems have been encountered by the PPBS in the procurement of major items. These problems resolve into two major questions: (a) Should the financial system of budgeting and programming used in the procurement of major items be changed? (b) Whether funding turbulence resulted in requirements turbulence that impacted adversely on procurement?

3. PROCEDURES AND POLICY. No beneficial purpose can be served in restating the detailed financial management procedures described in applicable DOD Directive and the Logistic Planning Monograph. Normal financial procedures were used. Forecast requirements and changes thereto were justified in detail. Programming and reprogramming of projects and programming elements were extended, according to the normally prescribed system, for 5 years in the Five-Year Defense Program. This document was the base for the submission of proposed program changes. An underlying policy was to avoid overfunding or procuring too much that might result in accumulated excesses. Guidance for program and financial plans for FY 67 specified that "procurement requirements will be programmed and financed in two increments. The effect of this assumption will be to minimize the quantities required to be programmed and financed prior to April 1, 1967 since only production leadtime will need to be protected by the first procurement increment."[2] The policy of submitting supplemental budgets was followed until FY 66 to attain more accuracy in budget estimates. In 1968 funds

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[1] Department of Defense Instruction 7110.1, Guidance for Preparation of Budget Estimates, Budget Execution Programs and Apportionment Requests and Related Support Material, 9 August 1965.

[2] Secretary of Defense, Memorandum, subject: Initial Program and Financial Plans for FY 67, 22 June 1966.

were requested in the regular budget for the entire year and a supplemental budget was not anticipated. (Nevertheless a $3.9 billion supplement was submitted late in the cycle in May 1968.) Guidance for preparation of the FY 67 and FY 68 budgets included the assumption that combat operations would end with the expiration of the fiscal year, i.e., FY 67; and "if it appears that the conflict will continue beyond that date or if it should expand beyond the level assumed in our present plans,"[3] an additional FY 67 request would be submitted. The reason given by the Secretary of Defense for this policy was: "I think it would be irresponsible for us to come forward now, today, with a higher figure, because it is extremely difficult to estimate the level of combat operation 18 months in advance."[4] Three months after the budget estimates were submitted, the "Record of Decision" version of the Logistics Guidance was published which authorized computation of requirements assuming extension of the war through FY 68 procurement lead time.

4. PROBLEMS. Application of the financial policies and procedures described in paragraph 3 to the Vietnam dynamic combat situation with its escalating requirements compounded an already difficult managerial situation. No measurement has been discovered as to what degree problems were intensified and exacerbated. The GAO reports, internal audits, and Program Management Reviews have identified the following problems:

a. Receipt of funding by the Services on an incremental basis without advance notice of amounts and dates funds would be available

b. Frequent program and funding changes

c. Insufficient funds at procurement agency level

d. Increased administrative burden and costs

e. Uneconomical quantities of procurement

f. Higher unit prices of procurement

g. Delay and confusion in procurement action.

5. COMPTROLLER GENERAL REPORT—SPARE PARTS. During FY 66 and FY 67, the DOD released funds to the military services on a piecemeal basis, as item requirements were approved. Like the other Services, the Air Force released funds to its procurement centers for spares without advance notice as to amounts or when they would become available. The total amount of funds made available was less than the total needed to satisfy all computed requirements.[5] The findings and conclusions of the GAO report pertaining to USAF procurement of spare parts criticized incremental funding and specified:

a. Spare parts could not be purchased in larger, more economical quantities.

b. Prices were increased by contractors because of delays in placing orders.

c. The administrative costs of procurement were increased because of the additional paper work.

d. The purchase of supplies on a piecemeal basis increased the likelihood of parts shortages, which could adversely affect the operational readiness of aircraft.

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[3] U.S. Congress, House. FY 68-72 Defense Program and FY 68 Defense Budget, Statement by the Secretary of Defense before The Armed Services Committee, 1967.

[4] Secretary of Defense, Draft Presidential Memorandum, subject: General Purpose Forces, 27 December 1966.

[5] Comptroller General of the U.S., Report to Congress, Need for Improvement in Funding Practices Affecting Spare Parts Procurements, 27 August 1968.

6. U.S. AIR FORCE AIR MUNITIONS

a. Funding History

(1) The FY 65 budget, prepared in October 1963, submitted in January 1964, contained $165 million for munitions. Through reprogramming actions and supplemental funds approved by the Congress, it was increased to a total of $316 million for FY 65. The budget had been prepared against an old program force level as compared to a newly recognized requirement for an increase of 36 percent in sorties authorized.[6]

(2) The FY 66 budget, which contained $285.7 million for munitions, was increased by the Congress to $295 million. With changing conditions in Vietnam, requirements were reevaluated in July 1965 and an addendum to the fiscal year budget of $268.8 million was approved by the Congress. Subsequently, the Air Force again adjusted the Vietnam requirements on the basis of additional force deployment. To support that increased requirement, the Air Force requested an additional FY 66 supplemental budget of $738 million. The munitions program for FY 66, including the supplemental, stood at $1,307.4 million early in 1967.[7]

(3) The FY 67 budget submitted to the Congress included $1,474.8 million for the munitions program. In addition to supporting Vietnam activities, that sum provided for the rebuilding of stocks in line with stockage objectives but did not include the rebuilding of war reserve stocks to any great extent.[8]

(4) The FY 67 supplemental program and the FY 68 buy program were developed in accordance with OSD direction to provide each month production deliveries that approximately coincided with anticipated monthly expenditures in Vietnam through June 1968.[9]

b. Funding Discussion:

(1) This chronology shows significantly increasing ammunition requirements throughout the period 1965-68. (See Chapter I of the Ammunition Monograph.)

(2) The results achieved in programming and budgeting for constantly changing air munitions requirements indicate that success was achieved in managing difficult procurements without underfunding and multiple fund releases. Since this experience is unlike that of other procurement programs such as artillery weapons and aircraft spares, several explanations may be drawn. In general, requirements for ammunition enjoyed high visibility as a sensitive and critical subject. There may have been an administrative tendency to be less critical in questioning ammunition requirements than others; thus, turbulence was relatively minimized. Cost escalation pressures were less evident in ammunition financial programs because of competition and volume procurement economies. Subsequent to the establishment of the Office of the Secretary of Defense Air and Ground Ammunition Directorates, adequate and timely air munitions procurement in support of Vietnam was one example of the proper functioning of the entire management system including budgeting and funding. Procurement and funding for ground munitions has generally followed the same pattern as that of air munitions. (See Chapter VII, Ammunition Monograph.) Necessary increases in requirements were funded by supplemental and amended budgets. Estimates of requirements were usually accepted with only minor adjustments. No shortage of funding for procurement occurred that had a major impact on combat operations.[10]

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[6] U.S. Air Force Logistics Command, Letter, subject: Support of Forces in Southeast Asia; Munitions Support 1964-1967, March 1969.

[7] Ibid.

[8] Ibid.

[9] Ibid.

[10] Mr. Lee W. Shefter, Deputy Director Assistant Secretary of Defense (Installations and Logistics), Interview held at OSD, November 1969.

7. OTHER FINDINGS. The OASD (I&L) Procurement Management Review Program has identified numerous instances where "procurement effectiveness [was] being hampered by program and funding changes at most of the larger [Service] purchasing activities. A few examples follow:

a. "...OSD made a number of substantive changes to major Navy programs, particularly aircraft...there is strong evidence that for FY 66 and FY 67 the increased costs were in the millions."

b. "...changes in availability of funds caused changes in materiel requirements...although actual materiel requirements may not have changed in fact [U.S. Army Weapons Command (WECOM)].

c. "The administrative manpower cost of 332 line items cancelled...was estimated to be $233,000...the lack of flexibility in funding was recognized as a major cause...[(WECOM)].

d. "...late program releases, changes to approved program and removal and/or deferrals of funds by higher authority are adversely affecting NAVORD's [Naval Ordnance Systems Command] procurement effectivess."

e. A Naval Air Systems Command (NAVAIR) report recommended "that OSD (I&L) should undertake a study into the decision making process regarding late changes to approved programs and funds reprogramming to assure that logistics implications including procurement, supply support, production and quality considerations are taken into account."[11]

f. An excellent example of turbulence has been cited by the U.S. Army Weapons Command. "In December 1966, the Army Materiel Plan reflected a FY 1968 quantity of 369 M-102 Howitzers. In Jan 1967 this was reduced to 240. Shortly thereafter the entire FY 1968 quantity was eliminated, but then in June, 160 were reinstated. FY 1969 quantities were similarly changed from 296 to 196 to 100. These changes appeared to be largely reactions to availability of funds rather than changes in realistic plans for the item itself...... Realistic planning and cost projections and delivery dates could not be achieved."[12] Whether the fundamental cause of these problems was requirements validation or funds availability, both affect one another and indicate the need for balance in the financial management system.

8. REVIEW AND ANALYSIS. There is agreement within all levels of the Department of Defense that since the stated requirements for Vietnam in FY 66 and FY 67 exceeded the amounts that had been included in the appropriations requests submitted to the Congress 6 months earlier, supplemental appropriations would be required.[13] It is claimed by the Assistant Secretary of Defense (Comptroller) that the total amounts which would be available for full year funding could not be known, consequently, "it was necessary to take every management action possible to assure that resources available would be used in the most judicious manner to assure uninterrupted supply support....pending availability of supplemental funds, and that some funds be held in reserve to provide for procurement of unforeseen requirements of an emergency nature." However, in testimony before the House Armed Services Committee on FY 68-FY 72 Program and FY 68 Budget, the Secretary of Defense indicated another explanation. The use of supplemental funding was necessitated not only by the inability to estimate the full year funding requirements, but also by the clear intent to "avoid the overfunding which occurred during the Korean War when the Defense Department requested far more funds than were actually needed."[14]

[11] Department of Defense, Procurement Management Review, June 1969.

[12] Office of Assistant Secretary of the Army, Procurement Management Review, July 1968.

[13] Office of Assistant Secretary of the Army, Procurement Management Review U. S. Army Weapons Command, July 1968.

[14] U. S. Congress, House, FY 68-72 Defense Program and FY 68 Defense Budget, Statement by the Secretary of Defense before the Armed Services Committee, 1967.

9. OBJECTIVES

a. One of the admitted objectives of the Secretary of Defense in budgetary submission was accuracy in funding estimates. The Secretary was attempting accuracy of an imprecise function while recognizing that the policies of government, duration and vicissitudes of combat were changing unpredictably. At a time when the President and his closest advisors (including the Secretary of Defense) were deciding courses to grossly escalate the war effort, the Secretary on 1 August 1966 before the Senate Subcommittee on Defense Appropriations, was exercising cautiousness in budget requests. He stated, "at the moment I would not recommend a supplemental, although I think at some time during 1967 is very likely. The reason I would not recommend it today..... is that there are still many uncertainties not only as to the duration of the conflict, but also with respect to the level of operations that needs to be financed."[15] On 16 July 1966 the President decided to approve escalation of U.S. forces to above a 40-battalion level, with a parallel increase in air support.[16] This decision resulted in "a cumulative series of proposed program increases falling one on top of another." These circumstances formed the basis of conflict between normal financial procedures and the urgency of managing to support combat order of magnitude requirements. The Secretary of Defense objective of program conservation and budgetary caution was in consonance with the national political policy, which stated succintly was, "we will not, except as a last resort move to a system of expanded controls.... we seek to avoid restricting the normal operations of our economy." (See Chapter IV of the Procurement and Production Monograph.) This thesis was popularly known as the "guns and butter" policy.

b. According to the Deputy Secretary of Defense (Comptroller), the Secretary of Defense was determined to avoid excess accumulation of supplies and material at all costs.[17] At the same time he realized he had to support all valid requirements. The problem was what were the true requirements? The Secretary of Defense was not convinced of the magnitude of Service requirements. The situation became a matter of judgment alone to determine what requirements to accept as valid to include in the budget estimates. It is apparent that the Secretary of Defense did not consider unfunded defense requirements, whatever their magnitude, sufficiently urgent to amend the FY 66 and FY 67 budget submissions when it appeared probable in October 1965 that the war would be long and force levels high.

c. The Secretary of Defense viewed the situation in the following context: ".... many of the decisions which would have been involved in preparing an amendment to the FY 1967 Budget would have also been involved in preparing the FY 1968 Budget, and these decisions could be made with much greater assurance of accuracy later in the year. Indeed, I am convinced that had we gone forward with an amendment last summer, the FY 1967 Budget would have had to undergo still another drastic adjustment because of the decisions made in connection with the FY 1968 Budget. In other words, an FY 1967 Supplemental would have been needed in any event."[18]

d. The major disadvantage of waiting for a supplemental appropriation was the need to reprogram on a large scale the available FY 67 funds to meet the most urgent of the longer lead-time procurement requirements, pending the availability of the additional funds. Reprogramming generated turbulence in recognized requirements, fund shortages, and procurement problems. The Secretary of Defense recognized this result when he stated: "We recognize that this extensive reprogramming has placed an extra burden not only on the Defense Department but on the Armed Services Committees and the Defense Appropriations Subcommittee as well."[19]

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[15] U.S. Congress, Senate, FY 67-71 Defense Program, Statement by the Secretary of Defense before the Senate Subcommittee on Defense Appropriations, 1 August 1966.

[16] Joint Chiefs of Staff, Weapons Systems Analysis Group Study 13, SEA Force Deployment Buildup, Part I, p. 108, March 1968.

[17] Mr. Don Brazier, Assistant Secretary of Defense (Comptroller), Interview at OSD, 23 December 1969.

[18] U.S. Congress, House, FY 68-72 Defense Program and FY 68 Defense Budget, Statement by the Secretary of Defense before the Armed Services Committee, 1987.

[19] Ibid.

Then he stated, "Now with a year and a half of combat experience in Southeast Asia, behind us, I believe that we have a much better understanding of our future requirements. . . . we have changed our basic approach in preparing the FY 1967 Supplemental as well as the FY 1968 Budget. Sufficient funds are being requested. . . . "[20] Pressure from the Congress and the Services to reduce reprogramming actions cannot be ignored as another reason for the change in policy.

e. The Secretary of Defense was not afraid to incur shortages as a result of his financial management policies. Before the House Appropriations Committee on 7 February 1966, he stated that: "No matter how much we spend for defense, someone somewhere in our far flung organization will be short some item at any particular time. This has nothing to do with the amount of funds requested and appropriated. It simply reflects the fact that no system. . . . can be one hundred percent perfect. Mistakes in distribution or requirements calculations will be made, and these mistakes will be reflected in an inventory shortage, or overage, somewhere in the system. "[21]

f. While fully supporting the Vietnam War effort, the Secretary of Defense was "pursuing our Cost Reduction Program with renewed vigor. "[22] His appraisal can be summarized as follows: "By eliminating unneeded and marginal activities and deferring whatever can be safely deferred, I have been able to reduce the FY 1966 Supplemental and FY 1967 Budget requests of the Services and Defense Agencies by about $15 1/2 billion, while at the same time providing for all essential military requirements. "[23]

g. Benefits from these policies appear to be reduction in the cost of the war, tighter requirements, funding of only essential items, avoidance of excess procurements, and support for national political policy. Disadvantages were frequent reprogramming action, turbulent requirements, higher procurement costs, and confusion. In the judgment of the Secretary of Defense the benefits were worth the cost.

h. This judgment was not shared by the Services' procurement agencies. Procurement Management Review comments reflect the typical attitude: for whatever reasons, incremental funding resulted in temporary shortages of funds relative to computed and projected requirements. These temporary shortages resulted in reprogramming action ". . . procurement cuts, deferrals, and slowdowns. . . and can cost more than they save. For example, in one case, contract modifications amounting to some $51 million of additional cost fall in this category." Late program releases, changes to approved programs and removal and/or deferral of funds by higher authority are adversely affecting NAVORD's procurement effectiveness. "[24]

10. SUMMARY. Turbulent and changing requirements, whether due to inaccurate projections, underfunding or whatever, were at the base of programming, budgeting and procurement problems. At best, requirements were continuously changing estimates to which neither the lowest user level or highest management level had a clear-cut solution under conditions of rising force level and deliberate incremental funding policies. Thus, turbulence was reflected throughout the financial management, procurement, programming, and requirements systems. This circumstance was wasteful of resources but there is no evidence that during the period 1965-68 any major items or troop support was lacking in Vietnam to the extent of hurting the combat action (Procurement and Production Monograph.) From this appraisal it may be surmised that the financial management system functioned as well as possible under adverse influences in supporting the procurement of major items.

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[20] Ibid.

[21] U. S. Congress, Senate, FY 67-71 Defense Program, Statement by the Secretary of Defense before the Senate Subcommittee on Defense Appropriations, 1 August 1966.

[22] Ibid.

[23] Ibid.

[24] Department of Defense, Procurement Management Review, June 1969.

11. CONCLUSIONS AND OBSERVATION

a. Conclusions. The DOD financial management system used to support contingency combat operations requires no change (paragraph 10). Frequent and sudden reprogramming actions and incremental funding have drastic, adverse effects on the system and must be avoided (paragraph 7). Advance notification of total funds availability and a schedule of expected release times will facilitate proper operation of the financial system (paragraph 7). The Department of Defense financial policy objectives should be in consonance with the military missions of the Services for proper functioning of the system (paragraphs 9 and 10).

b. Observation. No requirement for change in the Department of Defense financial management system for major item procurement was identified.

CHAPTER VIII

AUDITING IN COMBAT ZONES

1. BACKGROUND. Historically, auditing has been primarily limited to noncombat areas. As late as World War II and the Korean War, auditing in the combat zones was negligible. However, during the Vietnam era, tradition was broken and formal in-country auditing instituted.

2. DISCUSSION

a. Auditing in Vietnam from 1962 to 1966 was devoted, for the most part, to major construction contracts. These were conducted by the Naval Audit Service from 1962 to 1965, and then by the Defense Contract Audit Agency. In the meantime, Army and Air Force audit agencies were performing extensive audits at Pacific bases and in the United States of activities relating to logistic support of the military effort in Vietnam. Audits conducted by the military commands in Vietnam were limited mostly to nonappropriated fund activities such as officers' and enlisted men's clubs and open messes.[1] The circumstances under which the military assistance and military construction programs were and are conducted and the scope, complexity, and uniqueness of the situation suggested a greater than ordinary need for a continuing plan of top management surveillance.

b. Department of Defense (DOD) practice had been to curtail normal audit activities in combat areas because of the hazards involved and to minimize the disruption of forces engaged in conducting or supporting combat operations. The General Accounting Office (GAO) suggested to the Congress that audit coverage be expanded. Congress concurred and instructed

> ". . . the Assistant Secretary of Defense (Comptroller) to take whatever steps are required to formulate and maintain a proper and coordinated audit program of military contracts and activities in South Vietnam in areas where they will not interfere with combat operations or unnecessarily obstruct U. S. operations."[2]

c. Accordingly, DOD Instruction 7600. 3, 20 August 1965, was amended on 6 September 1966 to provide for an expansion of internal audits within combat theaters:

"G. Internal Audits Within Combat Theaters

"(1) As stated in subparagraph III. B. 1. of DOD Directive 7600. 3, all organizational components and levels of operations will be subject to independent and comprehensive audit review and appraisal. This applies within combat theaters to the extent that carrying out the audit functions will not interfere with combat operations nor obstruct United States purposes.

"(2) Upon the outbreak of hostilities in any area or in emergency situations where outbreak of hostilities appears imminent, regularly scheduled audits may be temporarily suspended by the theater commander, departmental or higher authority. Notification of any such suspensions will be furnished promptly to the Assistant Secretary of Defense (Comptroller). However, in any area where this has been done, the situation will be reviewed at least every 6 months by responsible departmental or higher authority, and normal audits will be resumed,

[1] U. S. Congress, Report by the Comptroller General of the United States, Survey of Internal Audits and Inspections Relating to United States Activities in Vietnam, July 1966.

[2] U. S. Congress, Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, Military Construction Appropriations for 1968, Part 4, p. 492, March 20, 1969.

after coordination with the theater commander, to the extent this can be done without interfering with combat operations. Suspension of audits within a combat area for a period in excess of one year must be approved by the Assistant Secretary of Defense (Comptroller). Normally, such approval will be given only when conditions are so unstable and lines between actual combat operations and support operations are so fluid and undefined that effective audits cannot be made or the attempt to audit would interfere with combat operations or obstruct United States purposes.

"(3) Audits within combat theaters will emphasize the adequacy and effectiveness of the support furnished combat forces and the controls in being to prevent unauthorized diversion of equipment, supplies or other resources. Functions to be covered, to the extent feasible, include logistic functions (e. g., supply, procurement, maintenance, construction, etc.), assistance to foreign military forces, and administrative support activities. Normally, no attempt will be made to extend audit coverage to units actually engaged in combat, unless specifically requested by local or higher level commanders." Simultaneously, the GAO also expanded its activities in Vietnam.

d. The various audit agencies quickly responded. Vietnam audit staffs were augmented. Expanded audit programs were implemented. Audit scope was increased significantly. Additional audit offices were opened. The Army Audit Agency, Air Force Auditor General, the Office of the Secretary of Defense Deputy Comptroller for Internal Audit (DCTA), and the Defense Contract Audit Agency presently have offices physically located in Vietnam. The Naval Audit Services does not maintain a formal office. The procedure practiced by the Naval Audit Service is to detail auditors to Vietnam, as necessary, on a temporary duty basis. Auditing of and for the Marine Corps is performed by the Naval Audit Service.

e. Numerous audits have been performed since the decision to extend audit involvement. Table 11 portrays audit activity conducted by the Service audit agencies and the OSD for FY 65 to FY 69.

TABLE 11

AUDITS PERFORMED IN VIETNAM, ARMY, NAVY, AIR FORCE, DCIA, FISCAL YEARS 1965 TO 1969

Agency	FY 65	FY 86	FY 87	FY 88	FY 69	Subtotal
			Number of Audits			
Army	–	–	4	10	12	28
Navy	–	1	5	3	8	17
Air Force	7	15	115	152	115	404
DCIA	–	–	–	10	5	15
Total	7	16	124	175	140	462
			Man-Days			
Army	–	–	3,062	4,492	5,663	13,217
Navy	–	70	1,543	155	1,978	3,744
Air Force	61	250	1,257	1,789	1,423	4,780
DCIA	–	–	–	535	870	1,405
Total	61	320	5,862	6,971	9,932	23,146

Source: Data furnished by the Audit Services.

f. Acceptance of Auditing as a Management Tool. The full value of auditing can be realized only if commanders and other managers adopt auditing as an integral tool of good management. This is not to say that all audit findings, conclusions, and recommendations must be accepted, but that audit findings must be considered in management decisions. Army, Navy, and Air Force spokesmen were complimentary of the work accomplished in the combat areas by the various audit agencies. They expressed conviction that auditing, with some restrictions, in a combat zone was practical and could serve as a workable management tool. Conversely, Marine Corps spokesmen, almost without exception, expressed the feeling that auditing had not yet proved to be of value in a combat zone, that the audits had not disclosed anything not already known. The team was unable to confirm or refute the Marine Corps position.

> "In every instance, whether an audit was command-requested, such as the audit on property disposal activities, or initiated by the USAAA such as the audits of Engineer, Construction and Industrial Equipment; Maintenance and Management of Facilities in Vietnam; Materials Handling Equipment and the almost-completed POL audit; . . . auditors have managed to do a thoroughly professional job under most disadvantageous circumstances. Each and every audit has been of value to this command in improving our procedures and in providing more effective combat service support."[3]
>
> "General Heiser. Findings contained in General Accounting Office reports and prior committee presentations are indicative of the highly penetrating study given to the combat logistic system. The thoroughness and dedication evidenced in the General Accounting Office reports are a tribute to the dedicated service of their personnel and success of their functional approach to audit work.
>
> "Over the years, and especially the most recent 2 years, contacts with General Accounting Office's representatives at all levels have been most rewarding and their suggestions concerning improvement of operations in Southeast Asia and Armywide have been most helpful.
>
> "The Army has met with General Accounting Office representatives during the course of their Southeast Asia reviews and prompt corrective action has been taken where possible and practical. It is in the context of this relationship that my remarks will be directed.
>
> "I would like to add that we have had periodic meetings with the General Accounting Office so that we could have reviews of situations with which they were familiar, to indicate what progress was being made as time went along."[4]

3. CONCLUSION AND RECOMMENDATION

a. Conclusion. This practice of limiting auditing, for the most part, to noncombat theaters remained in effect until 1966 when the Congress, in response to a General Accounting Office recommendation, instructed the Department of Defense to conduct audits of military contracts and activities in combat theaters. Thus, on 6 September 1966, the Assistant Secretary of Defense (Comptroller) revised DOD Instruction 7600.3 to require combat theater auditing to the extent that performing the audit function did not interfere with combat operations. Audits conducted after 1966 have proved the feasibility and worth of this effort.

b. Recommendation. The Board recommends that:

(FM-5) Since the feasibility and worth of auditing in combat theaters has been established, the Services should plan to conduct similar audits in combat theaters during future military actions (conclusion a).

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[3]Government Accounting Office Report to Congress, subject: Review of Audit and Inspection Programs conducted by U.S. Agencies in Vietnam During 1966 by the Comptroller General of the United States, June 1967.
[4]U.S. Congress, House Committee on Government Operations, Foreign Operations and Related Agencies, before a subcommittee of the Committee on Government Operations, House of Representatives, 90th Congress, 2d session, 20 March 1967.

CHAPTER IX
INDUSTRIAL FUNDS

1. BACKGROUND. Department of Defense (DOD) industrial funds finance industrial and commercial activities on a reimbursable basis (10 U.S.C. 2208). These activities are supported by orders that identify the customers' appropriations. Costs are initially financed by the industrial fund working capital and subsequently billed to customers' appropriations. Industrial fund activities are reimbursed primarily on a progress payment basis. Government investment as of 30 June 1970 is estimated at $378 million. Listed in Table 12 are the industrial funds established within the DOD and the actual gross disbursements in FY 68.

TABLE 12

DEPARTMENT OF DEFENSE INDUSTRIAL FUNDS, GROSS EXPENDITURES, FY 68
(In Millions of Dollars)

Industrial Fund	Gross Expenditure
Army	$1,094,0
Navy	3,780.0
Marine Corps	—
Air Force	1,125.6
Defense	289.7
Total	$6,289.3

2. DISCUSSION. The following paragraphs describe the activities included within each of the Services and DOD Industrial Funds as well as the control and efficiency of the management of these funds.

a. Industrial Funds

(1) U.S. Army. The Army Industrial Fund is currently used to finance 30 activities engaged in research, development, test, engineering, transportation and traffic management, and limited quantity production and major overhaul of weapons, munitions, missiles, and other military equipment.

(2) U.S. Navy. The Navy Industrial Fund finances 9 shipyards, 37 printing plants, 6 ordnance plants, 7 aircraft overhaul and repair facilities, 9 public works centers, 17 research activities (of which 13 were chartered under the fund beginning 1 July 1969), 10 naval weapons facilities and ammunition depots, 2 POLARIS missiles facilities, and the Military Sea Transportation Service.

(3) U.S. Marine Corps. The Marine Corps Industrial Fund, established 1 July 1968, includes two depot maintenance activities.

(4) U. S. Air Force. The Air Force Industrial Fund currently finances 9 printing plants, 33 laundries, the Alaska Communication Service, and the Military Airlift Command. Six Air Force depot maintenance activities (5 AMAs and Newark) were placed under industrial fund operations on 1 July 1968.

(5) Defense. The Defense Industrial Fund finances the Defense Clothing and Textile Supply Center and leased communication services procured by the Defense Commercial Communications Office. [1]

b. Establishing a New Activity Within an Industrial Fund. Prior to the financing of an activity under an industrial fund, a charter is signed by the Secretary or Assistant Secretary of the military department or by the Director of a Defense Agency, and submitted to the Assistant Secretary of Defense (Comptroller) (ASD (C)) for approval. The charter governs such operations and is prepared in accordance with DOD regulations and instructions. Amendments to the charter are proposed by the parties to the charter, subject to the same requirements for submission and approval as apply to the charter. The ASD(C) may, within his purview, revoke the charter authorizing the financing of any activity under an industrial fund. [2]

c. Industrial Fund Uses. Industrial funds will be used to finance the operating costs of major service units (industrial and commercial) that provide goods and services to satisfy requirements established by users and central management organizations within the DOD. Customers of an industrial fund activity may be (1) operating force commands or mission units thereof, operating agencies, commodity commands, inventory control points, weapon system or project managers, or any DOD components having missions and responsibilities separate from management and operations of the industrial fund activity; (2) military personnel, private individuals and concerns, and other Government agencies under conditions as authorized. [3]

d. Budgetary Controls

(1) Each industrial fund activity is controlled by an operating budget developed on the basis of:

(a) Estimated resources required to perform orders on hand and/or projected workloads and programs after full coordination of the programs and budgets at every level has taken place

(b) Expense budgets for nonmission and tenant support

(c) Procurement budgets for purchases of stock

(2) These budgetary controls will be designed to prevent

(a) Incurring costs in excess of amounts reimbursable for goods and services furnished to ordering activities

(b) The accumulation of excess inventories of stock

(c) Incurring of liabilities for expenditures in excess of payment capability. [4]

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[1] The Budget of the United States Government, FY 71.

[2] Department of Defense Directive 7410.4, Regulations Governing Industrial Fund Operations, 20 May 1968.

[3] Ibid.

[4] Ibid.

e. Effectiveness of Policies and Procedures Applicable to Industrial Funds. Basic financial procedures governing industrial funds and industrially funded activities are, for the most part, tried and proven. The Services, commended the performance of the industrially funded activities and the efficient manner in which requirements generated by the conflict in Vietnam were met. However, problems were experienced.

f. Civilian Manpower Ceilings. One issue of perennial concern to industrially funded activities is that of civilian manpower ceilings. The President and the Congress both recognize the need for adequate staffing. At the same time hiring restrictions are imposed to preclude waste of the tax dollar owing to overstaffing or other inefficiencies. National policy has been to restrict the military services from doing work that should be assigned to private industry. Thus, the overall goal of the President and the Congress has been to maintain employment at a level consistent with the best national interest.

(1) Accordingly, continuing manpower limitations have been imposed by the Congress, the President (through the Bureau of the Budget (BOB)), and the Secretary of Defense. The most recent congressional limitation was the Revenue and Expenditure Control Act of 1968.[5] This act imposed certain hiring restrictions on U. S. Government employment (including industrially funded activities) in order to reduce the number of permanent full-time employees. Subsequently, about one-third of the employment was exempted leaving the remaining restriction in effect through July 1969.

(2) On a more regular basis, civilian personnel limitation, by Service, are allocated by the Secretary of Defense as a part of the review of Service operating budgets. These ceilings are the prime divisions of the total civilian manpower authorization for the DOD established by the BOB.

(3) Civilian manpower ceilings assigned to each Service and Defense Agency by the Office of the Secretary of Defense (OSD) are developed on the building-block concept. Manpower requirements for industrially funded activities are inserted in one of the blocks. The actual allocations to each Service and Defense Agency is a lump sum without functional or activity limitations. However, OSD generally applies at least some rather firm guidelines, which, in effect, become constraints. During the year, the Services review their manpower allocations (as part of their cost effectiveness analyses) to determine where excesses and shortages exist. Once identified they affect necessary adjustments and cover shortages from within the current allocation, when feasible. When not feasible, several alternatives are considered. Among these are the following:

(a) Obtain greater utilization of available manpower through higher productivity during regular working hours and/or overtime.

(b) Utilize temporary hiring authority. Manpower ceilings cannot be exceeded as of 30 June; however, OSD does permit some variations during the year.

(c) Obtain additional spaces from OSD.

(d) Utilize commercial contractors.

(e) Some combination of the above.

(4) Despite these alternatives with their built-in flexibility and OSD manpower ceilings developed to provide necessary but not excessive limitations, numerous problems are constantly encountered. This led the OSD (I&L) Logistics Manpower Planning Task Force to conclude that ceilings should be removed from industrially funded activities. The Task Force felt

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[5] U. S. Congress, House, Revenue and Expenditure Control Act of 1968, Public Law 90-364, 90th Congress, 2d session, HR 15414, 28 June 1968.

that other built-in controls preclude overhiring of civilians at industrially funded activities. Their report states in part as follows:

"A government-operated industrial activity under the industrial fund working capital system like its private industry counterpart is dependent upon a customer with a funded, approved requirement for its income. It must adjust its work force, both by skills and number, to produce the customer's requirement on time. It receives progress payments to cover costs incurred for labor, materiel, and overhead while the customer's work is in process. It receives the balance of payment due upon completion of the Service. No motivation exists for overhiring. While the government industrial activity attempts to distribute orders to minimize employment fluctuations, no funds exist solely to pay for excess employment levels. The industrial activity manager is motivated to secure additional work for his workforce or to reduce his workforce by furlough, attrition, or reductions-in-force to avoid loss of working capital by unreimbursable labor costs. A Government industrial activity is controlled by the size of its approved funded workload, departmental monitoring of overhead rate and assignment of working capital, and internal auditing of its operations. A civilian ceiling control, in addition to these other controls, is redundant.

"Over and above physical limitations such as the area available for productive labor and installed equipment, Industrially Funded Activities are subject to three controls:

--Funding levels in programs which purchase their output.

--Civilian personnel limitations.

--Authority to spend purchasing program funds for overtime labor."

These controls are exercised as follows:

"a. Funding levels for purchasing programs are established by the Congress; although the major reductions in funding levels are generally made during the OSD/Bureau of the Budget review of Service estimates prior to their transmittal to the Congress as sections of the President's Budget. During this review, reductions are made not only on the basis of cutting non-essential program requirements but also through across-the-board reductions predicated on productivity increases, the relationship of man years on payroll to the authorized level of civilian employment, and on average grade level of civilian employees. Changes to program funding levels approved by the Congress are often made during the apportionment process or during the OSD/Bureau of the Budget review of the next fiscal year's estimates. Additionally, reprogramming actions may increase or decrease program funding levels at any time during the fiscal year.

"The net effect of the above is that purchasing program funding levels are closely reviewed and controlled from nine months before the fiscal year begins until it ends, with Service program managers having a very limited ability to change these levels without the approval of OSD.

"b. Civilian personnel limitations, by Service, are established by OSD as a part of the review of Service budget estimates. These ceilings are the prime divisions of the total civilian manpower authorization for the Department of Defense established by the Bureau of the Budget. They are not specifically authorized by the Congress. However, through restrictive language in legislation or Committee reports, civilian manpower estimates may be denied, limited or reduced. Additionally, through Acts, such as Public Law 90-364 (Revenue and Expenditure Control Act of 1968) which in section 201 reduced the civilian ceiling in the Executive Department to the level of 30 June 1966, sweeping reductions in civilian manpower may be directed.

"Within the civilian manpower authorization granted to a Service, there is ostensibly a high degree of flexibility; however, due to Civil Service regulations regarding terms of employment, the need to maintain balanced support to all programs, etc., this flexibility is sharply limited. The general rule is that program dollars available for payroll exceed the payroll of the labor force potential within the manpower authorization.

"c. Each Service is limited by OSD in its ability to spend appropriated funds for overtime work. This limitation is expressed in terms of millions of program dollars which can be spent for civilian payroll of weekends, holidays, or in excess of the normal eight hour day. It does not relate to the differential between a regular rate of pay and the overtime or holiday rate, but to the total pay earned under overtime or holiday conditions. It does not affect the level of program funding.

"An example of the problems incident to these triple controls may be drawn from the Naval Air Rework Facilities during Fiscal Year 1968.

"These industrially funded activities, six in number, exist for the sole purpose of depot level repair and modification of Navy and Marine Corps aircraft, aircraft engines and aircraft components. They are funded almost exclusively by two programs: (1) The Aircraft, Engine and Component Rework Program in the Operations and Maintenance, Navy appropriation, (2) the Aircraft Modification Program in the Procurement of Aircraft and Missiles, Navy appropriation. An insignificant amount of reimbursable work is done for the Army, Air Force, Coast Guard and Federal Aviation Authority.

"Accomplishment of these programs as requested for Fiscal Year 1968 would have required an employment level of 36,154, working an 8.4% overtime for the year. Actual on board strength, as of 30 June 1967 was 35,794. 32,577 civilian employees were approved for the Rework Facilities for Fiscal Year 1968. This level of employment would have required an average overtime rate of 14.9% in order to meet program requirements. An overtime rate of 14.9% could not be accommodated with the total Navy overtime limitation for Fiscal 1968 which had been held to the same level, in dollars, as Fiscal 1967.

"Through a major effort, an additional 3,577 civilian ceiling points were redistributed by Navy to the Rework Facilities, at the expense of other activities and programs. Additionally, a 'humping' of the work force in the Rework Facilities was authorized through the use of temporary employees during the middle of the fiscal year. As a result of these expediencies, program accomplishment was assured, based on an 8.5% overtime rate, recognizing that we would probably exceed the overtime limitation imposed for the year.

"In late January 1968, the Department of Navy was faced with an immediate requirement to increase both the number of deployed aircraft and the tempo of air operations due to the TET offensive in Vietnam and the Pueblo incident. In support of these requirements, supplemental funding was requested for the Rework Program; however, they were not authorized any additional civilian employees. No additional civilian manpower authorization could be diverted to the Rework Facilities. Therefore, the temporary use of maximum sustained overtime was authorized, in our estimate about 22%, without regard to the certainty of exceeding the overtime limitation. At the same time, 31 January 1968, action was begun to have the overtime limitation increased to cover the developing deficit. This action was successful, although not approved until 15 March 1968. At the end of the fiscal year the program had been accomplished without exceeding civilian manpower authorizations or overtime limitations. Actual overtime utilization rate for the Rework Facilities was 10.7% for Fiscal 1968.

"The basic observation is that Industrially Funded Activities are over controlled. Industrially Funded Activities are designed to operate as closely parallel to private enterprises as possible. Therefore, it appears that the primary control is and should be the funded levels of purchasing the programs. Workforce limitations are artificial constraints, while the overtime limitation which works directly counter to workforce limitation is even more artificial.

"The basic proposal was that Industrially funded Activities be exempted from both employment level and overtime limitations.

"There was partial nonconcurrence. Unless manpower ceilings were to be removed from all managed areas, removal from one only results in an unbalanced

workforce. Because of variation in depot funding some manpower limitations must be maintained on the industrial activity to assure that the maintenance program can be supported. The recommendation could be supported if all activities of the depot activity were industrially funded."[6]

(5) An indication of congressional interest in this matter was shown in a letter to the BOB from Representative David N. Henderson. Representative Henderson stated, in part:

> "As I previously indicated to you, the Subcommittee has numerous examples of the increase in labor costs resulting from restricted Civil Service ceilings. We find there is a lack of balance in the control over money and personnel. You allocate the money to do the job but restrict the Civil Service spaces, forcing the departments and agencies to resort to excessive overtime or more costly use of Military or Contractor personnel. May I point up two recent cases in which the Subcommittee played a prominent role, largely because we were on the scene.
>
> "At the Defense Department's Military Ocean Terminal, Bayonne, New Jersey in April 1968, Civil Service employees requested Subcommittee assistance. Some 210 career Government employees were to be replaced by Contractor-furnished personnel. The cause was a lack of Government Civilian spaces. However, it was determined that the use of contractor personnel would increase the Terminal labor costs by $1.7 million over the Civil Service costs. When the situation was brought to the attention of the Secretary of Defense the problem was solved. Apparently, the Bureau of Budget - Department of Defense procedure was indifferent to an in-house operation.
>
> "Early this year we found hundreds of employees working many hours overtime, week after week at the North Island Naval Air Station, California. This Naval facility is operating on an industrial-fund basis. It has the money, including dollars for labor, to repair aircraft but no civilian spaces to hire available local people. Employees are working 50 and 55 hour work weeks. This simply means we pay premium rates for declining productivity; whereas, additional spaces would provide additional people at regular pay.
>
> "This problem as far as I know, still exists at North Island, despite our staff, back in January, briefing Department of the Navy officials. We suspect many more cases, such as the above two, and we have similar reports from the General Accounting Office. These problems are found at the local activity level. But, it is becoming increasingly apparent the lines of communication are not open to top officials, either in the Department of Defense or in the Bureau of the Budget."[7]

This does not represent the views of the entire Congress, as evidenced by the Revenue and Expenditure Control Act of 1968, previously discussed. However, it does present one side of the controversy.

(6) To accomplish the programs assigned to the various industrially funded activities, a proper balance between program dollars and manpower allocations is imperative. The cited examples, by the Manpower Logistics Policy Board and Representative Henderson, describe actual instances of something less than an acceptable balance. Some portion of the kinds of problems cited could possibly have been averted through improved management at the industrially funded activity level. However, a closer correlation between program dollars and manpower spaces on the part of OSD and/or the Services would have a much greater effect on problems created by manpower ceilings that are beyond the control of the industrially funded activities.

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[6] Office of the Assistant Secretary of Defense (I&L), Report of the Long Range Statistics Manpower Policy Board, February 1969.

[7] Rep. David N. Henderson, Chairman, House Subcommittee on Manpower and Civil Service of the Committee on Post Office and Civil Service, Letter, 9 October 1969.

(7) Commercial contracting is an alternative method employed to meet selected production requirements. This normally gets a specific job done. No cost comparisons were attempted between commercial contracting and industrial fund production. This is an extremely complex area requiring intense separate research. The question of the extent to which the U. S. Government should contract work commercially as opposed to utilizing industrial fund activities is beyond the scope of the study and will not be treated.

(8) At the direction of BOB, OSD is in the process of establishing a manpower space pool controlled centrally by OSD. The purpose of the pool will be to provide spaces when a DOD agency determines it is more cost effective to utilize in-house facilities to perform an entire function on an installation (such as motor overhaul, janitorial services, and food handling), rather than commercial contracting. The reverse will be true if commercial contracting is determined more advantageous. Dollar and manpower allocations will be adjusted accordingly. The procedure will not overcome the problems previously described because it relates to the conversion of entire activities and does not provide additional manpower spaces for regularly performed functions.[8]

g. Funding

(1) Capitalization of the Department of Defense Industrial Funds is accomplished through appropriations by the Congress made specifically for that purpose. Once the funds are appropriated, however, Congress has expressed the following intent:

> "Sec. 538. (a) During the current fiscal year, cash balances in working capital funds of the Department of Defense established pursuant to Section 2208 of title 10, United States Code, may be maintained in only such amounts as are necessary at any time for cash disbursements to be made from such funds: Provided, that transfers may be made between such funds in such amounts as may be determined by the Secretary of Defense, with the approval of the Bureau of the Budget."[9]

(2) The Secretary of Defense has shown a reluctance to increase capitalization of the industrial funds; rather, the trend has been in the reverse. The OSD felt that initial capitalization at the inception of industrial funding was in excess of actual needs after the initial shakedown period and the programs became more definitized. For example, Navy capitalization was decreased from $480,090,000 in FY 59 to a current balance of $185,769,000. In FY 64 the ASD(C) amended the financing policy of industrial fund activities by instituting the requirement of prepayments on customer orders over $25,000. This was necessary to counterbalance the budgetary decisions transferring industrial fund cash to other appropriation accounts. After several years experience under prepayment financing, shortcomings were recognized in the efficient management of many industrial fund activities owing to high cash balances generated through advances. As a result, ASD(C) reversed its policy as of 31 May 1968 and required that all unliquidated customer advances be refunded and all work thereafter was to be financed by progress payments. This policy is in effect today.

(3) The OSD strives to keep capitalization to a bare minimum consistent with good management. This results in a constant challenge to each of the industrially funded activities to remain solvent. This requires prompt billing and collection procedures to provide sufficient cash to satisfy current payables. Billings are on a progress payment basis. The Army, Air Force, Marine Corps, and Defense Industrial funds are able to function within their approved capitalizations. The Navy, for several reasons (including the establishment of industrial funds at 13 research activities and the expansion of several others without an increase in capitalization)

[8] Bureau of the Budget, Circular No. A-64, Transmittal Memorandum No. 1, subject: Position Management Systems and Employment Ceilings, 2 January 1970

[9] U.S. Congress, House, Public Law 90-580, 90th Congress, 1st session, HR 18707, 17 October 1968.

has been unable to operate within their basic capitalization. The OSD recognized the problem and granted interim financing of $171,000,000 by way of selective advances from customers. This authority is for FY 69 and FY 70 and does provide adequate funding on an interim basis.[10]

3. CONCLUSIONS AND RECOMMENDATIONS

a. Conclusions

(1) The addition of civilian ceilings in industrially funded activities adversely affect management, especially in those activities subject to wide variations in workload. Exclusion of these activities from personnel ceilings is desirable, since experience has indicated that the administration of ceilings has not been sufficiently flexible to permit timely adjustments of personnel staffing when needed. Should overriding considerations preclude the exclusion of all personnel in industrially funded activities from ceilings, at least the wage board employees who are utilized in the type of work where fluctuations in requirements are relatively greater than in other areas of work should be excluded.

(2) Capitalization of Department of Defense industrial fund is held to a minimum, however, it has been adequate.

b. Recommendation. The Board recommends that:

(FM-6) The Secretary of Defense request the Director, Bureau of the Budget, to exclude wage board employees of industrially funded activities from manpower ceilings and to permit employment levels to fluctuate with workload and available funding of those activities (conclusion (1)).

[10]Department of Defense, Secretary of the Navy, Industrial Fund Management Report, 1 February 1969.

CHAPTER X
MILITARY ASSISTANCE PROGRAM

1. BACKGROUND

a. During the past three decades the United States has continuously provided military assistance to numerous nations throughout the world. During World War II, almost unlimited support with few financial constraints was furnished the allied forces. The Korean War found the United States generously supporting South Korea while simultaneously, but to a lesser extent, rendering support to other nations. Between the Korean and Vietnam eras, the United States continued its foreign aid programs. As the years passed, military assistance requests received an ever-increasing scrutiny by both the Congress and each succeeding President. They sought to provide needed support but within safe and realistic economic bounds as financial and other constraints became more stringent. Program management techniques, in the form of planning, programming, budgeting, and accounting procedures, were refined and strengthened to provide the visibility needed by the Congress and the President. Thus, by 1965, the beginning of the buildup in Vietnam, Military Assistance Program (MAP) funding procedures and constraints were comprehensive and well defined.

b. A number of free world countries have assisted the South Vietnamese during the Vietnam conflict. Australia and New Zealand have borne the financial costs of their participation. However, financial support of the bulk of free world forces (Korea, Philippines, Laos, and Thailand) has been borne largely by the United States.

2. MILITARY ASSISTANCE PROGRAM

a. Until 1966, funding for Vietnam was provided through normal MAP procedures prescribed in the Standard Department of Defense (DOD) Military Assistance Manual. These procedures worked well during periods of deterrence and initial resistance to aggression. The Congress, however, acknowledged the possibility of a rapid shift in the requirements for military assistance and provided the President considerable flexibility:

> "... to furnish military assistance on such terms and conditions as he may determine, to any friendly country or international organization the assisting of which the President finds will strengthen the security of the United States and promote world peace ..."[1]

This authority has remained essentially the same. Moreover, military assistance appropriations are not by country; rather, with certain limitations, they are available for apportionment by the President as he sees fit.

b. Congress also authorized the President additional obligational authority under MAP with a $300,000,000 limitation:

> "Sec. 510. Special Authority
>
> "During the fiscal year 1962, the President may, if he determines it to be vital to the security of the United States, order defense articles from the stocks of the Department of Defense and defense services for the purposes of Part II, subject to subsequent reimbursement therefor from subsequent appropriations

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[1] U.S. Congress, House, Foreign Assistance Act of 1961, Public Law 87-195, 87th Congress, 2d session, 1961, S 1983.

available for military assistance. The value of such orders under this subsection in the fiscal year 1962 shall not exceed $300,000,000. Prompt notice of action taken under this subsection shall be given to the Committees on Foreign Relations, Appropriations, and Armed Services of the Senate and the Speaker of the House of Representatives.

"The Department of Defense is authorized to incur, in applicable appropriations, obligations in anticipation of reimbursements in amounts equivalent to the value of such orders under subsection (a) of this section. Appropriations to the President of such sums as may be necessary to reimburse the applicable appropriation, fund or account for such orders are hereby authorized."[2]

(1) Both of the cited authorizations have remained essentially unchanged during the period of the Vietnam conflict.

c. Three of the countries involved in the Vietnam conflict have received MAP grant aid. See Table 13.

TABLE 13

MILITARY ASSISTANCE PROGRAM DELIVERIES

(Millions of Dollars)

Fiscal Year	Philippines	Thailand	Vietnam
1950-1963	$268.4	$415.0	$846.5
1964	10.7	52.7	185.2
1965	18.2	36.4	274.7
1966	26.0	40.8	170.0[2]
1967	21.0	44.9	—
1968	29.1	—	—
1969[1]	—	—	—
Total	$373.4	$589.8	$1,476.4

[1]No MAP grant-aid funds were allocated to Thailand, Laos, or Vietnam in FY 69.

[2]Represents that portion of the FY 66 program expended through 25 March 1966, the date when the unexpended portion was transferred to the Service appropriations.[3]

Source: Office of the Assistance Secretary of Defense (International Security Affairs), Military Assistance Facts, May 1969.

[2]Ibid.

[3]U. S. Congress, House, Supplemental Appropriations Act, 1966 Public Law 89-374, 89th Congress, 2d session, March 25, 1966.

d. Military assistance appropriations have gradually decreased during recent years. The Congress and the public have shown increased reluctance to approve large MAPs, since funds earmarked for foreign aid generally decrease fund availability for pressing domestic programs. As a result, MAP appropriations (even with intra-appropriation flexibility) are too small to accommodate large unanticipated requirements generated by Vietnam-type conflicts without depleting available MAP funds and causing extensive reprogramming and deferrals in ordering materiel to the detriment of all the other grant-aid countries. The MAP procedures that worked so well during periods of military calm are comparatively slow and cumbersome for the rapid approval and procurement actions necessary during an active military conflict. The unpredictability of consumption, enemy damage to equipment, supplies, buildings, and rapid force buildup or contraction impact directly on funding requirements and fund availability. Rapid funding, coupled with the funding flexibility that will permit adequate procurement responsiveness during a military conflict, is absolutely imperative to operational success.

3. <u>MILITARY ASSISTANCE SERVICE FUNDED</u>

a. As the tempo of the conflict increased and simultaneously became more cosily, the Secretary of Defense concluded that MAP funding was rapidly becoming impractical. On 8 March 1966, the Secretary stated:

> "There is one important change in the coverage of the Defense program and budget this year which deserves particular mention. We have included in both the FY 1966 supplementals and the FY 1967 budgets of the military departments the requirements for the support of the South Vietnamese Armed Forces and other Free World Military Assistance forces engaged in that country. These requirements have heretofore been financed in the Military Assistance Program. However, now that large U.S. forces and other Free World Military Assistance forces (e.g., Korean) have joined in the defense of South Vietnam, the maintenance of separate financial and logistic systems for U.S. and Military Assistance forces is proving to be entirely too cumbersome, time-consuming and inefficient. The same problem was encountered at the outset of the Korean War. It was solved, then, by programming, budgeting and funding for all requirements under 'military functions' appropriations and providing a consolidated financial and supply system for the support of U.S., Korean, and other friendly forces engaged in that effort. This arrangement gave the field commanders maximum flexibility in the allocation of available resources and improved the support of forces employed.
>
> "We are proposing essentially the same solution for the problems now being encountered in South Vietnam. By shifting responsibility and funding to the military departments, we will be able to achieve:
>
> "Increased efficiency resulting from the elimination of parallel supply pipelines to Vietnam and stockages of materiel within Vietnam; the consolidation of programming, budgeting, and funding for materiel and services required by U.S. and Military Assistance forces; and the elimination of detailed accounting and reporting for materiel and services furnished to Military Assistance forces.
>
> "Increased supply effectiveness resulting from greater-flexibility in the use of materiel resources available to the theater commander."[4]

b. An additional inducement to convert to Military Assistance Service Funded (MASF) was expressed by the Secretary of Defense on 20 March 1967:

> "... changes in the overall situation in South Vietnam resulted in increased military operations and large increases in requirements. This was a burden on military assistance program resources intended for other MAP countries. A portion of the increased requirements for MAP supported forces in South Vietnam

[4] U.S. Congress, House, <u>Defense Budget, FY 1967</u>, Statement by the Secretary of Defense before The Armed Services Committee, 8 March 1966.

had to be financed by reducing grant programs for other important countries of the free world. The shrinkage in military assistance program resources available for other countries led to extensive reprogramming and to deferrals in the ordering of material for these countries.

"As a result of congressional approval last year, the requirements of the South Vietnamese-Armed Forces and other free world forces in Vietnam have been included in the regular defense budgets, thus permitting more timely ordering of material to meet other military assistance program requirements. We are capable of continuing to give the highest priority to forces in Vietnam and at the same time meeting military assistance program requirements."[5]

c. The proposed change was approved by the Congress in March 1966 and included in the Supplemental Defense Appropriation Act, FY 66.

> "Sec. 102 (a) Appropriations available to the Department of Defense during the fiscal year 1966 shall be available for their stated purposes to support Vietnamese and other Free World Forces in Vietnam and for related costs on such terms and conditions as the Secretary of Defense may determine: Provided, that unexpended balances, as determined by the Secretary of Defense, of funds heretofore allocated or transferred by the President to the Secretary of Defense for military assistance to support Vietnamese and other Free World Forces in Vietnam shall be transferred to any appropriation available to the Department of Defense for military functions (including construction) to be merged with and to be available for the same purpose and for the same time period as the appropriation to which transferred."[6]

d. That portion of the regular Service budgets approved for use in support of Military Operations in the Republic of Vietnam (RVN) is referred to as MASF. At first, this included only the Armed Services of the Republic of Vietnam (RVNAF) and Free World Military Assistance Forces (FWMAF) serving in Vietnam. In FY 68, funding in support of local forces in Laos and Thailand was also transferred from MAP to the defense budget as MASF.[7] Each year since then funding of RVNAF and FWMAF in Vietnam, as well as support of local forces in Laos and Thailand, has been included in the regular DOD budgets.

e. Since MASF (begun in March 1966) is an integral part of regular DOD funding, budgeting and accounting for MASF are accomplished as a part of and in accordance with policies and procedures applicable to the regular Service budgets. However, planning and programming continue to follow procedures generally in accordance with instructions applicable for regular MAPs as supplemented by instructions of the military departments and Commander in Chief, Pacific (CINCPAC), component commands.[8] Thus, neither development of unique procedures nor significant additional workload was incurred within the DOD as a result of the conversion.

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[5] U.S. Congress, House, Committee on Appropriations, Foreign Operations and Related Agencies, Hearings before a subcommittee of the Committee on Appropriations, House of Representatives, 90th Congress, 1st session, 20 March 1967.

[6] U.S. Congress, House, Department of Defense Appropriation Act 1861, Public Law 89-374, 89th Congress, 1st session, 1967.

[7] U.S. Congress, House, Department of Defense Appropriation Act 1968, Public Law 80-88, 90th Congress, 1st session, 1967.

[8] The Foreign Assistance Program — Annual Report to the Congress, FY 66, January 1868.

f. Supplemental Appropriations. Another action by the Congress to render adequate financial support to the Vietnam conflict has been that of approving supplemental appropriation requests by the President. Here again, the Congress recognized the difficulty inherent in accurately forecasting financial requirements in SE Asia for an entire fiscal year. In view of this, the regular appropriation acts were based on the best projections available when the budgets were developed, as amended by the Congress. However, during the latter part of the fiscal year, as projections for the year became more reliable, the President submitted a request for supplemental appropriations for FY 65 to FY 69 to cover anticipated deficiencies. Congress complied by approving what appeared to be a reasonable amount. These supplemental appropriation acts not only covered requirements of U.S. forces but also those of the Vietnamese and other free world forces (funded by the United States) by augmenting MASF authorizations. (For further discussion of Supplemental Appropriations, see Chapter III.)

g. Exemption From Apportionment. Congress, long ago recognizing the need for providing full authority to the President to obligate funds as necessary in the interests of national defense and for a number of years prior to and since the Vietnam conflict began, has provided this authority.

> "Sec. 612. During the current fiscal year, the President may exempt appropriations, funds, and contract authorizations, available for military functions under the Department of Defense, from the provisions of subsection (c) of section 3679 of the Revised Statutes, as amended, whenever he deems such action to be necessary in the interests of national defense.
>
> "Upon determination by the President that such action is necessary, the Secretary of Defense is authorized to provide for the cost of an airborne alert as an expected expense in accordance with the provisions of Revised Statutes 3732 (41 U.S.C. 11).
>
> "Upon determination by the President that it is necessary to increase the number of military personnel on active duty beyond the number for which funds are provided in this Act, the Secretary of Defense is authorized to provide for the cost of such increased military personnel, as an excepted expense in accordance with the provisions of Revised Statutes 3732 (41 U.S.C. 11)."[9]

The above authority is granted to the President for all regular DOD appropriations. Not only does it cover support of U.S. forces, but it includes MASF (available for support of Vietnamese and other free world forces in Vietnam and local forces in Laos and Thailand).

h. Budget Flexibility. As previously noted, Congress has authorized the President to exceed annual MAP appropriated amounts by up to $300,000,000. This permits the United States to support other nations in a short-term or low-intensity conflict. The combining of budgets covering MASF costs, with the DOD Service budgets, coupled with a waiver of obligational limitations—if this is considered to be in the national interest—permits the funding flexibility necessary in a long-term high-intensity conflict. Amounts included in the Service budgets for South Vietnam, each of the funded free world countries, and U.S. forces, are not hard and fast, in and of themselves. Considerable flexibility is authorized in shifting funds within individual DOD appropriations—particularly the operations and maintenance appropriations. This permits reprogramming necessary to provide adequate support to all friendly forces. Since precise budget program accuracy in most combat environments is extremely difficult, if not impossible to achieve, intra-appropriation flexibility has been an extremely desirable, if not essential, authority.

i. Adequacy of MASF Funding Support. All of the Services reported that adequate funding was provided to the MASF program. They did indicate, however, that providing this support did have an adverse effect on other programs.

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[9] U.S. Congress, House, Department of Defense Appropriation Act, 1966, Public Law 89-213, 89th Congress, 1st session, September 1965, H.R. 9221.

4. CONCLUSIONS AND OBSERVATION

a. Conclusions

(1) Military Assistance Program funding procedures in Southeast Asia worked satisfactorily prior to escalation of the Vietnam conflict. As the tactical situation changed and the South Vietnamese forces required a higher level of logistics support, it became apparent that funding under Military Assistance Program procedures was too cumbersome to provide necessary flexibility and responsiveness. To overcome this limitation, the Congress, pursuant to a proposal by the Secretary of Defense, enacted legislation combining foreign military assistance funding with the regular Service budgets. The resultant procedures are referred to as Military Assistance Service Funded.

(2) Military Assistance Service Funded procedures permitted the flexibility necessary to provide adequate logistic support, generally when and where needed, but within the framework of a controlled funding system.

b. Observation. Military Assistance Program funding procedures are satisfactory for peacetime military assistance. They were designed for this purpose—not to support an Allied force in a high-intensity, prolonged conflict such as Vietnam.

CHAPTER XI
SUMMARY

1. OVERVIEW

a. In addressing the subject of financial management, the study effort was focused on an examination of the Planning, Programming, and Budgeting System (PPBS), and the three classifications of funds: operating expense funds, working capital funds, and investment funds. In addition, the three special financial supporting functions of auditing in the combat zone, industrial-funded activities, and Military Assistance Programs (MAPs) were reviewed.

b. Financial management techniques and procedures did not change significantly during the period 1965 to 1970 as a result of the Vietnam conflict. Certain minor modifications in procedures were made within each Service to meet changing conditions and the particular requirements of the individual Service mission, location, and environment.

c. The PPBS is the basic financial management vehicle by which the Services obtain resources to support assigned missions. This system was implemented in the early 1960's and remained essentially the same until January 1970 when certain modifications were made to improve the system and provide the military departments with timely and realistic guidance. The impact of these changes cannot be evaluated until completion of the FY 72 defense budget cycle.

d. Experience during the Vietnam era has indicated that the PPBS provided a sound basis for the effective financial management of the Department of Defense programs. The system, however, did not function without difficulties that reflected policies of tight centralized control. The war has been financed on an incremental basis by submitting supplemental requests to meet escalating logistic requirements not programmed in the regular annual defense budget. These policies created considerable program instability for the military departments in the management of all appropriations. The turbulence was particularly troublesome in the procurement of major items of equipment. As a result of program instability, the following expediting procedures were required to obtain funds on a timely basis: (1) exemptions from apportionment, (2) critical item procedures, (3) Emergency Defense Fund and Transfer Authority, and (4) reprogramming actions. Although these financial procedures did in general provide an acceptable degree of budget flexibility to meet funding requirements for Southeast Asia, program managers were hard-pressed to process the many complex and time-consuming program changes required to make adjustments to Service programs. This experience demonstrated that program managers in the Services must receive timely and stable guidance to permit them to manage their programs in a more efficient and orderly manner.

e. Wide variations existed in how the Services used their accounting and financial management systems associated with the Operation and Maintenance (O&M) appropriation supporting Vietnam combat operations. One common feature in the initial buildup stage was the performance of formal appropriation accounting at a location outside Vietnam. The Army, Navy, and Marine Corps still have this common feature. However, the Air Force initiated in-country accounting for O&M funds supporting combat operations as soon as an adequate financial management capability was established in Vietnam early in 1966. The Navy and Marine Corps had O&M accounting systems for inventories that had been purchased from the stock fund and continued this statistical accounting upon deployment of units to Vietnam with only minor administrative adjustments. On the other hand, because of the lack of trained personnel and adequate computer support, the Army did not elect to financially account in-country for inventories until 1969 when a system of financial inventory accounting was established for depots. Despite these differences,

all of the Services recognized the need for financial information to properly manage and justify resources needed to accomplish their assigned combat mission.

f. Each Service made independent decisions based on experience or policy on whether to finance in-country inventories supporting combat operations with stock fund or O&M funds. The Army and Marine Corps elected not to extend the stock fund to Vietnam. They considered the financial inventory accounting requirement and other management restraints associated with a stock fund operation too burdensome in a combat environment. The Navy continued its normal employment of stock fund in logistic support ships. It also elected to establish a stock fund operation at the Naval Support Activity, Da Nang, when assigned common supply responsibilities for I Corps Tactical Zone. The Air Force, whose policy had been to exclude stock fund operations from combat areas, elected to extend stock fund operations in Vietnam and Thailand when Project Priority Improved Management Effort (PRIME) required this procedure elsewhere. The reason for this decision was to maintain a standard base supply operation at all U.S. Air Force bases.

g. Prior to 1965, it had been the Department of Defense policy to limit auditing activities outside the continental United States to noncombat areas. In June 1966, the General Accounting Office suggested to the Congress that audit coverage be expanded to cover military contracts and activities in South Vietnam. Based on this suggestion, the Congress instructed the Secretary of Defense to initiate action to increase audit coverage of those financial areas and organizations associated with the combat effort in South Vietnam. Subsequent audits proved to be a useful management tool for combat commanders. They provided data to be used as a basis for identifying and organizing procedural improvements. In the conduct of audits, however, care had to be exercised to ensure that there was no interference with combat operations and the effective support of these operations.

h. Industrial funds were managed in accordance with routine Department of Defense procedures. A few problems arose where there was insufficient flexibility in manpower ceilings to meet the changing workloads that occurred during the transition to escalating logistic requirements.

i. Military assistance to allied forces had been provided by the United States for the past three decades. Before the Vietnam conflict intensified, MAP procedures were well established and functioning efficiently. As the conflict intensified, MAP procedures proved to be impractical, cumbersome, and insufficiently responsive for the unique combat environment that was developing in SE Asia. As a result, military assistance funding procedures were realigned to coincide with those of the military departments of the United States and were established as Military Assistance Service Funded (MASF) procedures. This system provided that the support of the South Vietnamese Armed Forces and other free world forces engaged in Vietnam would be programmed within the budgets of the military departments of the United States. The MASF procedures have proved to be effective and have provided the necessary flexibility and responsive support required.

j. The remainder of this chapter summarizes the major lessons learned and lists the recommendations that are developed within the monograph.

2. FINANCING OF OPERATIONAL EXPENSES

a. Lessons Learned

Vietnam experience has proved that financial management techniques, when utilized to an appropriate degree, could be useful tools in the effective and efficient management of materiel in combat areas. Financial management systems for Operations and Maintenance funds supporting combat operations are most effective when they are mechanized, require a minimum change from the normal Service system, and provide for the distribution of materiel cost to appropriate cost accounts.

b. Recommendation

(FM-1) The Services, when planning contingencies, outline appropriate financial management systems for Operation and Maintenance funds supporting operations in the combat areas. Such systems should:

(a) Be appropriate to the combat environment.

(b) Avoid extension of financial accounting to a level that interferes with combat operations or places an undue administrative burden on combat organizations or their logistic support units.

(c) Be mechanized to the extent practicable.

(d) Be integrated with the Service's total resource management system.

(e) Parallel the Service's normal system to the extent practicable.

(f) Identify expense materiel with an appropriate cost account.

(g) Use financial information in the determination of requirements and identification of areas for improved management.

(h) Provide useful reports to appropriate levels having management responsibilities.

3. FUNDING OF INVENTORIES OF EXPENSE ITEMS

a. Lessons Learned

(1) The use of stock funds, with adequate capitalization and when not constrained by apportionment procedures, could be an effective and efficient procedure for financing those supply system inventories that support and complement user stocks. However, within the broad framework of established Office of the Secretary of Defense stock fund policy, the Services needed the flexibility to organize their stock fund operations in a manner that best supported the accomplishment of their assigned missions.

(2) The Office of the Secretary of Defense procedures of stock fund program review and control have made Bureau of the Budget apportionment of stock fund unnecessary to ensure the most effective and economical use of funds. In addition, authority to maintain minimum cash balances in and to transfer capital between working capital funds provided by the Congress on an annual basis since FY 66 will be needed indefinitely for efficient management of resources.

(3) In general, since the end of FY 66, stock fund cash balances have been low in relation to the volume of business processed.

b. Recommendations

(FM-2) The Office of the Secretary of Defense establish with the Bureau of Budget the conditions required to obtain apportionment exemptions for stock funds and a schedule for qualifying each fund for exemption.

(FM-3) The Office of the Secretary of Defense seek permanent statutory authority (replacing the general provision included annually in the Defense Appropriation Act) to permit sufficient cash balance of working capital funds to be only the amount needed to cover disbursements and to authorize transfers of capital between working capital funds.

(FM-4) To support sound management, the Office of the Secretary of Defense program more adequate cash balances in stock funds, including a greater allowance for unanticipated program changes, so that the planned balance in each fund should be equal to at least 30 days of disbursements.

4. INVESTMENT COSTS—CONSTRUCTION

a. Lesson Learned

A dynamic warfare situation, such as the Vietnam conflict, results in rapidly changing requirements for urgent military construction. Although some modifications and adjustments have been made, the procedures for justification, programming, and budgeting extended well beyond that needed for the overall level of effort and program control, and continued to be basically the same as that used in peacetime—the line item oriented military construction process. These procedures involved much extraneous administrative effort, introduced undesirable time delays, were not sufficiently flexible, and imposed difficulties in the application of construction resources. In short, military construction procedures proved unsuitable for use in a warfare situation.

b. Recommendation

(The Construction Monograph contains a recommendation for the establishment of a new Contingency Construction Appropriation.)

5. AUDITING IN COMBAT ZONES

a. Lesson Learned

Experience in Vietnam has established the feasibility and worth of auditing military contracts and activities in a combat area when audits are conducted in such a fashion as to ensure that there is no interference with combat operations and the effective support of these operations.

6. INDUSTRIAL FUNDS

a. Lesson Learned

Civilian personnel ceilings in industrially funded activities adversely affected management of those activities subject to wide variation in workload. Exclusion of industrial-funded activities from personnel ceilings would facilitate timely adjustments of personnel staffing to accommodate workload variations. Should overriding considerations preclude the exclusion of all personnel in industrially funded activities from ceilings, at least the wage board employees who are utilized in the type of work where fluctuations in requirements are relatively greater than in other areas of work should be excluded.

b. Recommendation

(FM-6) The Secretary of Defense request the Director, Bureau of the Budget, to exclude wage board employees of industrially funded activities from manpower ceilings and to permit employment levels to fluctuate with workload and available funding of those activities.

7. MILITARY ASSISTANCE PROGRAM

a. Lessons Learned

Peacetime Military Assistance Program funding procedures proved impractical in a conflict like Vietnam, which has involved large numbers of U.S. and free world forces. The

Military Assistance Service Funded procedures, which became an integral part of the Department of Defense financial management system, proved to have the funding flexibility and responsiveness required in this area of logistic support.

1. INTRODUCTION

1. BACKGROUND. The legislative requirement that the President must present his budget request to Congress in January of each year is the primary factor around which all Federal planning, programming, and budgeting actions revolve. The Department of Defense (DOD) has developed and improved in subsequent years, a system to meet this requirement. This complex system known as the Planning/Programming/Budgeting System (PPBS) is a process of compiling all factors of national security objectives, strategy, forces, resources, and costs within the same conceptual framework. The PPBS continually changes as improvements through experience become evident. The most recent and significant change to the system is contained in the DOD Instruction 7045.7 dated 29 October 1969. This was effective on 1 January 1970. Since this change became effective during the period in which the Joint Logistics Review Board (JLRB) was conducting its review of worldwide logistic support of U.S. forces during the Vietnam era, it was deemed necessary to present the PPBS in two segments. The first seven chapters will discuss the system as it existed during CY 69 since this was the system in effect covering the major time period in the overall study effort. Chapter VIII will discuss the changes that were effective on 1 January 1970.

2. PURPOSE. The purpose of this appendix is to provide the reader with a full understanding of each segment of the PPBS and its relationship to the overall system. This will eliminate the necessity of expounding on the various segments as they are discussed in other portions of this report.

3. DEVELOPMENT CYCLE. Since it takes most agencies almost a full year to develop a complete departmental budget, its development must start around January of the prior year. The development cycle, therefore, is necessarily on a calendar year basis, whereas the budget year to which all such development is addressed is on a fiscal year basis. From the above, and the illustration in Figure A-1 it can be seen that approximately eighteen months is required from the first start of budget development to the time it becomes a funded financial plan. For example, the budget for FY 71, which covers the period 1 July 1970 to 30 June 1971, is:

a. Developed in CY 69 by military departments and agencies;

b. Submitted in October 1969 to Office of the Secretary of Defense (OSD);

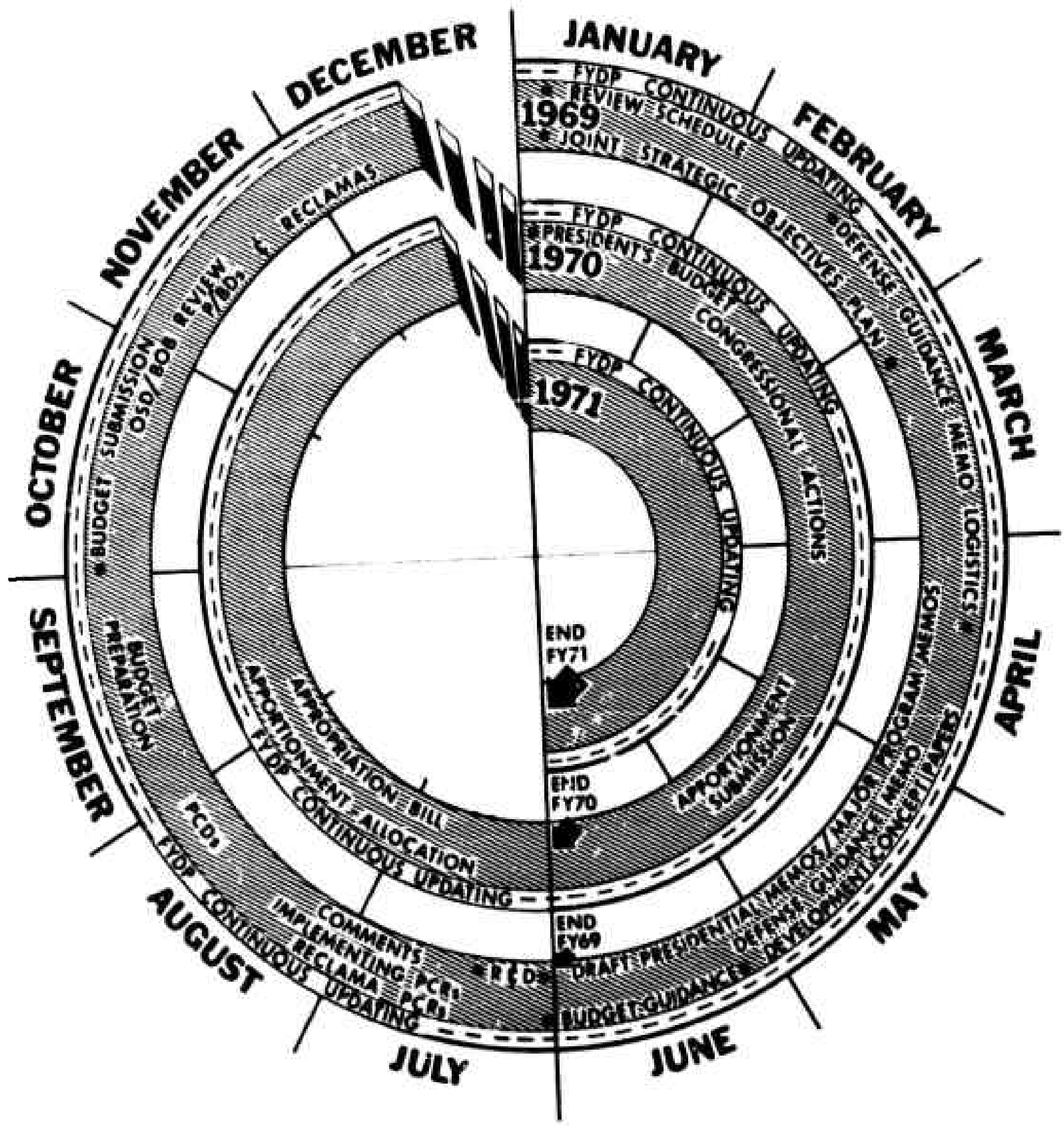
c. Reviewed by OSD with the participation of the Bureau of Budget (BOB) so as to be completed around the middle of December 1969;

d. Presented to Congress by the President for appropriation action in January 1970;

e. Reviewed by Congress for the establishment of authorizations and appropriations by 30 June 1970. In recent years Congress has extended its review action beyond 1 July. This extension necessitates special action by Congress to authorize Departments to continue to operate and restricts Departmental action.[1]

4. ANNUAL CALENDAR YEAR SCHEDULE. The Secretary of Defense publishes an annual calendar memorandum providing a schedule of significant events for each current year. The

[1]Headquarters, Department of the Air Force, Operating Instructions (HOI) - 27-1, 8 August 1968, p. 3-1.



FYDP - Five Year Defense Program
R & D - Research and Development
PCRs - Program Change Requests
PCDs - Program Change Decisions
OSD - Office Secretary Defense
BOB - Bureau of Budget
P/BDs - Program/Budget Decisions

Figure A-1. Planning/Programming/Budgeting Cycle (as of CY 69)

memorandum for CY 69 was published in January and was revised as necessary in the spring. It identified:

a. The base program from which all proposed changes would be made, by publication or as of date;

b. A schedule for the submission of the Joint Strategic Objectives Plan (JSOP) by the Joint Chiefs of Staff including but not limited to (1) discussion of pertinent major force issues and rationale supporting the issues; (2) force recommendations; and (3) other supporting data, such as manpower and costs estimates;

c. A schedule for the issuance of Draft Presidential Memorandums, Major Program Memorandums, and Defense Guidance Memorandums;

d. Specific dates on which actions could be expected on proposals;

e. Date for the submission of the DOD budget estimates;

f. Identification of special reviews or studies to be conducted during the calendar cycle and assignment of Primary Action Offices (PAO) for review of studies identified; and

g. A date for the inclusion of an additional year to the Five-Year Defense Program (FYDP).[2]

[2] Department of Defense Instruction 7045.7, Review and Approval of Changes to the Five-Year Defense Program, 22 December 1967, p. 3.

II. JOINT STRATEGIC OBJECTIVES PLAN

1. PURPOSE. The purpose of the Joint Strategic Objectives Plan (JSOP) is to advise the President and the Secretary of Defense on the military strategy and force structure requirements for attaining the national security objectives and to provide planning guidance to commanders of unified and specified commands and to the Services.

2. FORMULATION. The formulation of the JSOP is the responsibility of the Joint Staff of the Joint Chiefs of Staff. The planning effort involves the digestion of masses of intelligence data to arrive at an estimate of the capabilities and inclinations of potential enemies, and the assessment of the present capabilities of U.S. forces and weapons, as well as the technological advances expected shortly from the vast defense research establishment.[3] Data used are derived from the following:

a. Intelligence estimates and national policy statements of the President, executive agencies, and Congress.

b. Intelligence estimates, studies, and technical considerations of the military departments and defense agencies.

3. GENERAL. The JSOP is a military judgment as to the forces and programs which should be supported during the next 5 to 8 years and consists of volume I, Strategy; Volume II, Analyses and Force Tabulations; Volume III, Free World Forces; and seven annexes.[4] The plan is submitted by the Joint Chiefs of Staff to the Secretary of Defense for information.and consideration in connection with the preparation of Draft Presidential Memorandums (DPMs), Major Program Memorandums (MPMs), Defense Guidance Memorandums (DGMs), the Five-Year Defense Program (FYDP), and the military budget. The JSOP in the Planning/Programming/Budget Cycle (see Figure A-1) may be additionally clarified by the following excerpt from the Secretary of Defense Memorandum on the Program/Budget Review Schedule for CY 69 (dated 1 March 1969 and revised 22 April 1969) as follows:

> "Joint Strategic Objectives Plan
>
> On March 3, 1969, the Joint Chiefs of Staff (JCS) are requested to submit the FY 1971-1978 Joint Strategic Objectives Plan (JSOP). Volume II of the JSOP should identify those major issues which the JCS believe are required to be resolved during the course of this year. Issues should be supported by (a) an explanation of the rationale for the proposed change, (b) the military objectives to be served, and (c) the resource implications of the proposed changes.
>
> "Earlier receipt of the JSOP 71-78 than in past years will provide greater assurance that the force structure recommendations, and the supporting analysis of the JCS, are given careful review and consideration prior to beginning work on the Draft Presidential Memorandums (DPMs), Major Program Memorandums (MPMs), and the (DGMs).

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[3] Comdr. Steven Lazarus, USN, Defense Industry Bulletin, "Defense PPBS-A 1969 Overview," June 1969 p. 19.

[4] Joint Chiefs of Staff Publication 3, Joint Logistics and Personnel Policy and Guidance (U), April 1969, (CONFIDENTIAL) p. 12.

"The estimated dollar value and manpower requirements associated with the proposed force changes of the JSOP 71-78 are to be revised and submitted by the JCS no later than April 15, 1969, based on the March update of the FYDP."[5]

[5]Office of the Secretary of Defense, Memorandum, subject: Calendar Year 1969 (CY 69) Procedure and Schedule for Draft Presidential Memorandums (DPMs), Major Program Memorandums (MPMs), and Defense Guidance Memorandums (DGMs), 22 April 1969.

III. FIVE-YEAR DEFENSE PROGRAM

1. GENERAL. The Five-Year Defense Program (FYDP) is the official program that summarizes the Secretary of Defense approved plans and programs for components of the Department of Defense (DOD). The scope of the FYDP includes force, manpower and cost data, and information covering the prior, current and succeeding fiscal years. The force structure includes data and information for the prior fiscal years, current fiscal year, budget year, and seven succeeding fiscal years. Cost and manpower data are included for the prior fiscal years, current fiscal year, budget year, and the four succeeding fiscal years. Prior-year historical data are recorded from 1961 on forces and from 1962 on cost and manpower data.[6]

2. PROGRAMMING SYSTEM. The programming system provides the means for submission, review, record-keeping, and decision-making of the DOD system. The planning, programming, resource, materiel, and financial management systems of all DOD components are correlated with the programming system. The program structure provides DOD components with means of showing the approved program changes in meaningful aggregations. The structure is designed to be an operating tool of the DOD managers, to allow broad aggregations of data and detailed presentations of data that are meaningful to different managers, and to allow the application of a systematic means of measuring actual use of resources against planned and approved programs. The program structure currently consists of 10 programs, which are broad aggregations of interrelated program elements that either complement each other or are close substitutes. The program elements are logically considered together in relation to the common mission they are designed to serve. Each program has, as a part of its make-up, forces, manpower and costs. Costs are classified as either development, investment, or operation.[7]

3. PROGRAMS. There are currently 10 force-related and support-related programs. Table A-1 depicts the number of program elements in each program for DOD components as of 2 June 1969. Table A-2 displays examples of the various program elements.

a. Program I—Strategic Forces. This program consists of three major subdivisions; Strategic Offensive, Strategic Defensive, and Civil Defense. They include command organizations associated with these forces.

b. Program II—General Purpose Forces. This program consists of force-oriented program elements other than those in Program I, including the command organizations associated with these forces, the logistics organizations organic to these forces, and the related logistics and support units which are deployed or deployable as constituent parts of military or naval forces and field organizations.

c. Program III—Intelligence and Communications. This program consists of missions and activities directly related to combat forces listed in programs I or II on which independent decisions can be made. It includes resources primarily for national or centrally directed DOD objectives for intelligence and security; communications; and specialized missions such as weather service, aerospace rescue and recovery, and oceanography.

d. Program IV—Airlift and Sealift. This program consists of airlift, sealift, and other transportation organizations both industrially funded (IF) and nonindustrially funded (NIF). It includes command, logistic, and support units organic to these organizations.

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[6]Department of Defense Instruction 7045.7, Review and Approval of Changes to the Five-Year Defense Program, 22 December 1967.
[7]Department of Defense, Program Structure Handbook 7045.7-H, 2 June 1969.

e. Program V—Guard and Reserve Forces. This program consists of National Guard and Reserve training units organic to these organizations.

f. Program VI—Research and Development (R&D). This program consists of all R&D activities that are not related to items approved for procurement and deployment. The R&D costs related to operational systems will appear in appropriate elements in programs to which the weapon or support system may be identified.

g. Program VII—Central Supply and Maintenance. This program consists of supply and maintenance that is not organic to other program elements. It includes nondeployable supply depots and maintenance depots, both industrially funded and nonindustrially funded.

h. Program VIII—Training, Medical, and Other General Personnel Activities. This program consists of training, medical, and other activities associated with personnel. It excludes training specifically identified with another program element, and also excludes housing, subsistence, medical, recreational, and similar costs that are organic to another program element such as base operations.

i. Program IX—Administrative and Associated Activities. This program consists of resources for the administrative support of departmental and major administrative headquarters, field commands, administrative activities (not elsewhere accounted for), construction support activities, and miscellaneous activities.

j. Program 0—Support of Other Nations. This program consists of elements identified with the Military Assistance Program (MAP) and Agency for International Development (AID) Programs and those resources assigned to elements related to or supporting the MAP.

4. PROGRAM ELEMENTS. Program elements are the basic building blocks on the decision-making level of the programming process. A program element is defined as an integrated force or activity—a combination of men, equipment, and facilities whose effectiveness can be directly related to national security objectives. For example, the B-52 together with all of the supplies, bases, weapons, and manpower needed to make it effective militarily, is such a program element. Program elements of the missile forces can be broken down into land-based such as ATLAS, TITAN, and MINUTEMAN or sea-based POLARIS and REGULUS missile systems.[8] The number of program elements within each separate program continually change. Those in effect, as depicted in DOD Program Structure Handbook 7045.7-H, revised 2 June 1969, are shown in Table A-1.

5. FIVE-YEAR DEFENSE PROGRAM CHANGES. The FYDP change proposals may be originated by the Secretary of Defense, Deputy Secretary of Defense, Secretaries of the military departments, Chairman of the Joint Chiefs of Staff, Director of Defense Research and Engineering, Assistant Secretaries of Defense, Assistants to the Secretary of Defense, and Directors of Defense Agencies. The specific publication or update of the FYDP, as indicated by the annual calendar memorandum, will be the base for the submission of proposed program changes.[9] Department of Defense components will process program data changes to their FYDP data files as frequently as necessary during any 30-day period to ensure processing of data to OSD on a monthly basis.[10] The FYDP continuous update is depicted in Figure A-1. The two basic key decision instruments that provide authority to change the FYDP through CY 69 are the Program Change Decision (PCD) and the Program/Budget decision (P/BD). (See Chapter VIII for FYDP changes effective on 1 January 1970.) The PCD primarily responds to Program

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[8] U.S. Air Force, Institute of Technology (AU) ALM-1609-II, Organization and Logistics Systems of the Department of Defense, 1 January 1968, pp. 41-43.

[9] Department of Defensn Instruction 7045.7, Review and Approval of Changes to the Five-Year Defense Program, 22 December 1967, p. 5.

[10] Department of Defense Instruction 7045.8, Procedures for Updating Program Data in Five-Year Defense Program (FYDP), 23 May 1968.

TABLE A-1

NUMBER OF DOD PROGRAM ELEMENTS

PROGRAM TITLE	ARMY	NAVY	MARINE CORPS	AIR FORCE	MIXED	OTHER DOD	TOTAL
I. Strategic Forces	9	12	0	49	11	14	95
II. General Purpose Forces	81	135	34	39	8	0	297
III. Intelligence & Communications	5	3	0	16	27	10	61
IV. Airlift & Sealift Forces	4	15	0	24	11	0	54
V. Guard & Reserve Forces	34	30	8	57	0	0	129
VI. Research & Development	135	185	7	178	0	15	520
VII. Central Supply & Maintenance	4	12	0	4	18	3	41
VIII. Training, Medical, and Other General Personnel Activities	4	0	0	1	23	1	29
IX. Administration & Associated Activities	0	0	0	0	14	4	18
0. Military Assistance	0	0	0	0	6	1	7
	276	392	49	368	118	48	1251

Source: Department of Defense Program Structure Handbook (7045. 7-H). Revised 2 June 1969.

Change Requests (PCRs) and the P/BD to program/budget submissions. Changes may also be made to the FYDP on the approval of the heads of the DOD components if they are:

a. Below Threshold Changes (BTCs) that do not require DOD approval. These could be FYDP manpower adjustments resulting from changes in bases and units data or from intracommand redistribution of resources.

b. Below Threshold Reprogramming Changes that are transfers within prior- or current-year approved funds of a magnitude or character not requiring OSD or congressional committee approval. They arise from numerous adjustments as financial plans or operating budgets are revised or executed.[11] Criteria for submission of PCRs and issuance of PCDs are further explained in Chapter VI. Further details on P/BDs are contained in Chapter VII.

[11]Department of the Air Force, Headquarters Operating Instructions 27-1, DOD Programming System, 8 August 1968, p. 8-1.

TABLE A-2

EXAMPLES OF DOD PROGRAM ELEMENTS

PROGRAM TITLE	PROGRAM ELEMENT: ARMY	NAVY	MARINE CORPS	AIR FORCE
I. Strategic Forces	NIKE HERCULES BN HAWK BN	Fleet Ballistic Missile System		B-52 SQ, KC-135 SQ MINUTEMAN SQ
II. General Purpose Forces	Infantry Div Airmobile Div Combat Engr BN	F-4 SQ, Submarines, Assault Ships	A-4 SQ, Assault Support Helicopters	F-100 SQ, F-105 SQ Aerial Port SQ
III. Intelligence & Communications	STARCOM Cryptologic Acty	NAVCOM Crypto Acty Resc/Recovery Oceanography		AIRCOM Crypto Acty, Resc/Recovery Tracals
IV. Airlift & Sealift Forces	Port Terminal Operations	Troop Transport, Tankers Fast Deployment Logistics Ships		C-5 SQ, C-141 SQ (Aeromedical Airlift)
V. Guard & Reserve Forces	Brigades NIKE HERCULES Unit	Patrol (VP) SQS, Support Units	Augmentation Units, Divisions, Wings	F-86 SQ, F-100 SQ C-119, Medical Units
VI. Research & Development	Aircraft Weaponization Missiles	Guided Missiles Advanced Communications	Advanced Weapon Systems	Defense Research Sciences, AMSA, AWACS
VII. Central Supply & Maintenance	Supply Depots, ICPS, Aero Maint Acty	Supply Depots, ICPS, Aero Maint Acty	Supply Depots, ICPS, Aero Maint Acty	Supply Depots, ICPS, Aero Maint Acty
VIII. Training, Medical, and Other General Personnel Activities	Training Acty Medical Acty Recruiting	Training Acty Medical Acty Recruiting	Training Acty Medical Acty Recruiting	Training Acty Medical Acty Recruiting
IX. Administration & Associated Activities	Mil. Family Housing	Mil. Family Housing	Mil. Family Housing	Mil. Family Housing
0. Military Assistance	Vietnam, NATO Support of Allies	Vietnam, NATO Support of Allies	Vietnam, NATO Support of Allies	Vietnam, NATO Support of Allies

Source: Department of Defense Program Structure Handbook (7045.7-H), Revised 2 June 1969.

IV. DRAFT PRESIDENTIAL MEMORANDUMS, MAJOR PROGRAM MEMORANDUMS, AND DEFENSE GUIDANCE MEMORANDUMS

1. MEMORANDUM SCHEDULE. A schedule for the Secretary of Defense issuance of memorandums concerning major issues relating to forces and policies is published early in the calendar year. The CY 69 memorandum schedule update, dated 22 April 1969, incorporated several changes in the Department of Defense (DOD) Planning/Programming/Budgeting System. One of these changes was the realignment of memorandums under three basic types. These are Draft Presidential Memorandums (DPMs), Major Program Memorandums (MPMs), and Defense Guidance Memorandums (DGMs).[12] Formerly memorandums were broken out into only Draft Presidential Memorandums and Defense Guidance Memorandums.

2. DRAFT PRESIDENTIAL MEMORANDUMS. The DPMs are memorandums from the Secretary of Defense to the President containing recommendations on major issues relating to forces, together with rationale for these recommendations. They are draft in the sense that they reflect tentative decisions and may be subject to modification during the period in which the framework for a given fiscal year's budget is being designed. The President can accept or reject the analyses, decisions, and budget recommendations implicit in them. The three DPMs in the CY 69 schedule are those on General Purpose Forces, Strategic Forces, and Theater Nuclear Forces.[13]

3. MAJOR PROGRAM MEMORANDUMS. The MPMs are supporting and subordinate to DPMs. Each MPM addresses a group of related forces or functional elements that are required for support of forces indicated in the DPMs. Thus, DPMs and MPMs serve as vehicles by which the Secretary of Defense can weight the costs and benefits of and decide on changes proposed to the currently approved FYDP. Seven MPMs are in the CY 69 schedule. They consist of Land Forces, Tactical Air Forces, Naval Forces, Amphibious Ship Forces, Mobility Forces, Manpower, and Research and Development. Issues addressed DPMs and MPMs are those that have a direct force impact. Examples of these are decisions to add or subtract numbers of units, to increase or decrease procurement levels of high cost equipment items, or to start, kill, or delay production of a new weapon system.

4. DEFENSE GUIDANCE MEMORANDUMS. The DGMs, by contrast to DPMs and MPMs, have only indirect force impacts.[14] They cover problems, other than the main force issues, which require a comprehensive analysis and review. Their main purpose is to establish procurement objectives for materiel support from the approved forces, including forces deployed in SE Asia. The two DGMs in the CY 69 schedule are Logistics and Nuclear Stockpile and Materiels.

5. PROCEDURES. Upon receipt and analysis of the JSOP from the Joint Chiefs of Staff, the "For Comment" DPMs, MPMs, and DGMs, by which the Secretary of Defense announces his tentative guidance on an issue or group of issues, are prepared. The DPMs and MPMs include a Resource Annex to help relate the program guidance to the FYDP structure. This Resource Annex was effective with the CY 69 guidance. The Joint Chiefs of Staff and Departmental responses are required for the "For Comment" memorandums. These responses are in two

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[12] Secretary of Defense Memorandum, subject: CY 69 Procedures and Schedule for Draft Presidential Memorandums (DPMs), Major Program Memorandums (MPMs), and Defense Guidance Memorandums (DGMs), 30 April 1969.

[13] Armed Forces Journal, Decisions Have To Be Made Now, While Congress Still Debates How Much to Spend in FY 70, by the Journal Staff, 28 June 1969, p. 28.

[14] Ibid., pp-28-29.

forms: narrative comments and Program Change Requests (PCRs). Responses are due to OSD within 30 calendar days after issue of the "For Comment" DPM, MPM, or DGM. Narrative comments will describe in detail the Services position on each issue. The PCRs are required for each change in the FYDP covered in a specific DPM or MPM. The DPM or MPM transmittal letters will identify the force related PCRs to be submitted. After OSD has reviewed the Joint Chiefs of Staff and Departmental comments and related PCRs submitted as a result of the "For Comment" DPMs, MPMs, and DGMs, "Tentative Record of Decision" DPMs, MPMs, and DGMs are published by OSD. "Tentative Record of Decision" DPMs and MPMs are supplemented by Program Change Decisions (PCDs). The PCDs are necessary because DPMs and MPMs do not provide sufficient details for entry into the FYDP.[15] Criteria for submission of PCRs and issuance of PCDs are further explained in Chapter VI.

[15]Secretary of Defense Memorandum, subject: Interim Operating Procedure (IOP) Number 1--Processing of Program Change Requested (PCRs) and Program Change Decisions (PCDs), 21 June 1969.

V. RESEARCH AND DEVELOPMENT PROGRAMS AND DEVELOPMENT CONCEPT PAPERS

1. GENERAL. The annual Research and Development (R&D) program and budget review cycle runs somewhat parallel with the overall Department of Defense (DOD) program and budget review cycle, but certain procedural differences do exist. This chapter outlines the procedures for the R&D programming and budgeting system in the Department of Defense (DOD). Instructions concerning the R&D program are included in the annual calender memorandum from the Secretary of Defense. Instructions in the CY 69 memorandum included:

a. Submission date for the Joint Research and Development Objectives Document (JRDOD)

b. Submission date for R&D program proposals and apportionment review submission

c. Submission date for budget estimates

d. Date the "For Comment" MPM and R&D will be issued.

The Office of Director of Defense Research and Engineering (ODDR&E) supplements this annual schedule with detailed instructions for the annual program budget review.

2. JOINT RESEARCH AND DEVELOPMENT OBJECTIVES DOCUMENT. The Joint Research and Development Objectives Document (JRDOD) is developed annually by the Joint Chiefs of Staff. It is published concurrently with the JSOP and submitted to the Secretary of Defense. The JRDOD provides R&D objectives responsive to the strategy and force rcommendations in the JSOP, as well as long-range and technological objectives for capabilities expected to be needed in the 10- to 20-year period. Indicators of relative military importance and appropriate rationale are included to assist in developing the DOD R&D program and in the preparation of Development Concept Papers (DCPs).

3. DEVELOPMENT CONCEPT PAPERS. The DCPs are summary management documents to the Secretary of Defense for his decisions on important development and engineering modification programs. The document serves as the vehicle for these decisions and as a source of primary information and rationale. The ODDR&E is the responsible office within OSD for the procedural implementation and preparation of DCPs. They are accomplished with the assistance and coordination of other OSD offices and the Services, as appropriate.

a. The DCPs are submitted on development programs that are classified as important and ordinarily are submitted for new development programs and major modifications of existing programs. A development program may be considered as important if it falls within one of the following three classes:

(1) High Priority. Criteria established by DOD Instruction S-4410.3, Policies and Procedures for Implementing Approval of National and Military Urgency Determinations.

(2) Costly. Is estimated to require total cumulative R&D financing in the current year, budget year, and subsequent 2 fiscal years in excess of $25 million; or to require a total production investment in excess of $100 million and involves at least $5 million in R&D effort.

(3) Otherwise Important. Is deemed by the Secretary of Defense to be important because it has one or more of the following characteristics:

(a) Has a significant effect on the nation's defense posture

(b) Is being conducted on a substantially concurrent development and production basis, particularly when significant technical problems are anticipated

(c) Involves unusual organizational complexity or technological advancement

(d) Presents unusual difficulties that need expeditious handling to satisfy an urgent requirement.

b. The DCPs are also used to gain the Secretary of Defense approval to continue on development programs at critical decision points. In these cases, DCPs will be updated to reflect information or considerations not previously covered in the original or prior submission. The DCP procedure contains pre-established decision thresholds that, when breached, automatically call for a DCP to be submitted to the Secretary of Defense. At that time, the Secretary may revise his prior decision and cancel, or alter the direction or pace of the program.[16]

c. The DCPs are forwarded to the Services after the Secretary of Defense expresses his decisions on the initiation of or changes to them. TheDCP transmittal letters identify the need for PCR action. Where PCRs are required they are submitted within 30 days by the Services, subsequent PCDs are published by OSD, and the Services update the FYDP.

4. PROGRAM AND BUDGET REVIEW. Consolidated R&D Program proposals for FY 71, other than those related to DCPs, are submitted as indicated in the annual calendar schedule, along with the FY 70 apportionment review submissions. Annually in July, a consolidated program and budget review of the R&D Program is conducted. The results of this annual review are incorporated into the MPM and R&D, which then becomes the basis for approval by the Secretary of Defense of a PCD.[17] The MPM gives guidance and reflects tentative decisions onthe Services Consolidated R&D FYDP. The response to this MPM does not require PCRs. The Services' annual budget estimates, submitted in October, include the R&D Program. (See Chapter VII.) The R&D budget estimate is a reiteration of the tentative decisions contained in the initial R&D MPM plus an addendum for issues that have been the subject of Service reclamas and remain unsolved.[18]

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[16] U. S. Navy Programming Manual, Navy Programming Manual COPNAV 90P-1C, 15 February 1969.

[17] Department of Defense Instruction 7045.7, Review and Approval of Changes to the Five-Year Defense Program, 22 December 1967, p. 4.

[18] Department of the Air Force, Headquarters, Operating Instructions 27-1, DOD Programming System, 8 August, p. 7-2.

VI. PROGRAM CHANGE REQUESTS AND PROGRAM CHANGE DECISIONS

1. GENERAL. A Program Change Request (PCR) is a proposal in required format for changes to the approved date in the-Five Year Defense Program (FYDP). A Program Change Decision (PCD) is a Secretary of Defense decision, in prescribed format, authorizing changes to the FYDP. The PCD is used primarily by the Secretary of Defense to respond to PCRs. It is further specified as a decision instrument for the annual R&D Program and budget review and is also used by OSD in other varied instances without prior PCR submission.

2. PROGRAM CHANGE REQUEST CRITERIA. The PCRs are submitted by DOD components when the proposed changes meet any of the conditions listed below:

a. Force Changes—Changes in FYDP controlled forces.

b. Manpower Authorizations—Increase to FYDP end-year ceilings of 100 or more.

c. Issues—Proposals for FYDP change in initial DPM, MPM, DGM, or for decisions expressed in DCPs. (For R&D, also see paragraph 4 of Chapter V.)

d. Functional Transfers—Any transfer that involves a change in the Total Obligational Authority (TOA) stated in the FYDP.

e. Policy Change—Any change with significant effort on resources as stated in the FYDP.

f. Fact-of-Life Changes—Any uncontrollable change, such as production schedule slippage, operational accidents, or combat attrition, that causes force, manpower, or TOA changes from the FYDP.

g. Total Obligational Authority (TOA)—Any increase to a FYDP annual cost category, unless exception has been authorized.

h. Procurement Changes—Additional ships, aircraft, missiles or new procurement items (beyond current year).

i. Military Assistance Program—FYDP change of 5 percent or 1 million dollars/year/country.

j. Reprogramming Actions—Changes are processed for current or prior fiscal year with a PCR that is used as a transmittal document for Financial Reprogramming Actions (DD Form 1415).

k. Confirmation Changes—Changes to FYDP that result from Secretary of Defense decisions other then PCDs and PBDs and not based on PCRs.

l. Program Elements—Changes to program element codes, titles, and definitions.

Proposed resource changes not covered by these criteria are included in the annual budget submission of the DOD component in accordance with the guidance prescribed by the Assistant Secretary of Defense (Comptroller) for the submission of a particular budget estimate.[19]

[19] Department of Defense Instruction 7045.7, Review and Approval of Changes to the Five-Year Defense Program, 22 December 1967, pp. 6-8.

3. PCR USE WITH DPM OR MPM. Narrative comments, describing in detail the Service position on each issue, and PCRs are required for each change to the FYDP covered in a specific "For Comment" DPM or MPM. This PCR, known as the implementing PCR, shows in definite terms the resource implications of the tentative OSD guidance. If the Service position, agrees with the "For Comment" DPM or MPM guidance, then this is the only PCR submitted on that issue. If the Service position, differs substantially from the tentative OSD guidance, another PCR, known as the reclama PCR, is prepared and submitted simultaneously to reflect the resource implications of the Service reclama position. The reclama PCR resource implications do not need to be stated in the same detail as implementing PCRs. Department of Defense Instruction 7045.7, dated 22 December 1967, permits the use of computer cost model data and cost factors in describing the Service's alternate proposal. If the DPM or MPM position or the alternate Service position is the same as the current approved program in the FYDP, a PCR is not required. If the DPM or MPM position is the same as that in the FYDP, an implementing PCR is not needed because the resource implications of such position is already reflected in the approved program. If the alternative Service position is the same as the current program, a reclama PCR is not needed because the narrative comments adequately explain the Service position and the resource implications of this position is already known. Similarly, if the Service reclama position is identical with that priced in the JSOP, additional pricing is not necessary. The narrative comments refer to the JSOP pricing.[20]

[20] Department of the Air Force Headquarters Operating Instructions 27-1, DOD Programming System. 8 August 1968, p. 3-2.

VII. BUDGET GUIDANCE MEMORANDUM, PROGRAM/BUDGET REVIEW, CONGRESSIONAL ACTION, AND APPORTIONMENT

1. GENERAL. Instructions concerning Program/Budget Reviews are contained in the Secretary of Defense annual calendar memorandum. Specific dates are included for the issuance of the guidance for the preparation of budget estimates, meetings between the Secretary of Defense and the Service Secretaries to discuss major force issues, and the submission of budget estimates.

2. BUDGET GUIDANCE MEMORANDUM. The Budget Guidance Memorandum is normally published in the June-July time frame. The Budget Guidance varies somewhat each year, but in general specifies:

a. Date budget estimates will be submitted by the Services;

b. That the budget estimate will reflect the approved FYDP as modified by PCDs. In the event PCDs have not been issued on major program changes, the guidance usually specifies that positions contained in the DPMs, MPMs, and DCPs will be maintained;

c. Program assumptions not otherwise specified;

d. Factors to be used in military personnel pricing in other areas;

e. How departmental requests not yet decided or submitted would be treated;

f. Guidance as to levels of activity.

3. BUDGET ANALYSIS PERIOD. Budgets submitted by the Services on 1 October are prepared to conform with the budget year in the FYDP. Where requirements proposed by the Services differed from or had not been included in the FYDP, they were normally submitted as an addendum to the budget. However, the Services were provided a bogey by the Secretary of Defense for the FY 71 budget submission. The FY 71 budget, submitted on 1 October 1969, was prepared by the Services to conform with the FY 71 program in the FYDP and within the total bogey recommended. Requirements for the FY 71 budget that were not included in the FYDP were covered by Service Secretarial Letters that transmitted the budgets to OSD. Thus the budget submission is the culmination of the planning/programming/budget preparation period, which required the first 9 months of the year. (See Figure A-1.) The period of October through December each year is often referred to as the budget analysis period.

a. To save time, Bureau of Budget (BOB) representatives participate in OSD reviews. (It should be noted that although BOB representatives are active in OSD reviews, the ultimate decisions are those of OSD. Final Secretary of Defense decisions are forwarded to BOB, which takes another look and prepares recommendations to the President. The BOB was the authority to amend amounts before the budget estimate is forwarded to the President for review.)[21] During this period the budget estimates are separated into packages, each of which are analyzed and presented to the Secretary of Defense for decision. These decisions are then returned to the Services on a daily basis in the form of Program/Budget Decisions (P/BDs).

[21] Department of the Air Force (Comptroller) Unnumbered Pamphlet, The Air Force Budget, 20 March 1969, p. 34.

b. The P/BDs spell out the action taken by OSD during its review of the budget. They identify specific items and the dollar amounts associated with them. Services have 5 days in which to reclama the P/BD. If no reclama is submitted, the P/BD is final. If a reclama is submitted with additional information or justification, OSD will then issue a revised P/BD to reflect action on the reclama, i.e., total or partial approval of the reclama, or denial. The FYDP is then updated from the P/BDs.

c. After the DOD budget has been approved by the President, it then becomes a part of the President's budget, which he presents to Congress in January. A budget enters its second year of processing at this point. It has taken 12 months to move through the Departments and OSD and become an approved budget estimate. In January the cycle begins again for the following fiscal year. (See Figure A-1.)

4. CONGRESS. Congress is the only body which can authorize an agency to obligate funds for the United States Government. The Administration tells the Congress in the form of the President's budget how much obligational authority is need and for what. Congress now has the responsibility of examining the budget and validating the requirements. The budget is first passed to the House of Representatives where it is referred to the Committee on Appropriations, Armed Services Committee, and various subcommittees. Hearings are held with the Secretary of Defense, Assistant Secretaries of Defense, civilian heads, and chiefs of each of the military departments. During this period the Services are busy preparing material for the witnesses, as questions raised during the hearings require immediate answers. Upon completion of the hearings, an Appropriation Bill is drafted by the subcommittees and presented for consideration to the full Committee on Appropriations. The Bill is then presented to the House of Representatives for debate. It is accompanied by a report which explains decisions by the subcommittee which effected the bill, i.e., deletions or additions to the Service estimates or specific limitations that the Appropriations Committee considers necessary. The Bill could be amended on the floor of the House before it is passed. The Senate then receives the Appropriation Bill passed by the House of Representatives. Approximately the same schedule of events take place in the Senate as occurred in the House of Representatives; but it is less time consuming, since the Senate has the transcript of the hearings held by the House Committees. Senate action is consummated by passage of a Senate Appropriation Bill, which usually differs in varying degrees from the House Bill. The Senate version or amendments to the Appropriation Bill are then referred back to the House. If the House disagrees with any of the Senates' amendments, this difference is reconciled by means of conference action. In this process the Senate and House appoint several members to a Committee of Conference, whose function is it to reconcile the two versions of the Bill so that a single Bill can be recommended which will gain the approval of both Houses of Congress. Adoption of the Conference Report by both Houses results in passage of the Appropriation Bill. The Appropriation Bill is then forwarded to the President for his action. Normally he signs it into law. It should be emphasized here that a precise schedule is made up for the actions of the various agencies and levels within the executive branch of the Government so that the President may submit his budget request to Congress in conformance with the law in January of each year. However, there is no specific time schedule prescribed by law within which the Congress must act. If those years in which there are contentious items, the reviews and debates may delay passage of the act for some time after the commencement of the budget year for which the act appropriates funds. (See Table A-3 for dates the DOD Appropriation Bills were approved by Congress and enacted by the President.) Temporary funding bills are passed by Congress to permit continued operations. These resolutions provide for operation at the same rates and are constrained by the same provisions as existed during the previous fiscal year and are for a stipulated period.

5. APPORTIONMENT. Apportionment is the distribution of monies appropriated by Congress in the Appropriation Act and signed into law by the President. Apportionment is another responsibility of the BOB. During the month of May the Services submit an apportionment request to OSD with supporting background similar to that utilized in the submission of budget estimates. This reflects any changes that have occurred since the budget estimate submission. Adjusted requests are transmitted to the BOB by the Assistant Secretary of Defense (Comptroller). Approved apportionments come back to the Services through OSD. It is at this time that the Secretary of Defense exercises his key legislative authority, as expressed in Title IV of the National

Security Act, to approve obligation rates. The Assistant Secretary of Defense (Comptroller) issues operating budgets covering the operations appropriations and maintains item control in the procurement area by means of an "approved/deferred list," and in the research and development area by means of a "research, development, test and evaluation program/fund authorization." Specific construction projects must be approved by the Assistant Secretary of Defense (Installations and Logistics), and approved for financing them is given by the Assistant Secretary of Defense (Comptroller).[22]

TABLE A-3

APPROPRIATION ACT APPROVAL
FY 60 THRU FY 69

DOD APPROPRIATION ACTS	DATE APPROVED BY CONGRESS	DATE ENACTED (signed by President)
1969	12 October 1968	17 October 1968
1968	13 September 1967	27 September 1967
1967	11 October 1966	15 October 1966
1966	21 September 1965	29 September 1965
1965	4 August 1964	19 August 1964
1964	8 October 1963	17 October 1963
1963	1 August 1962	9 August 1962
1962	11 August 1961	17 August 1961
1961	30 June 1960	7 July 1960
1960	4 August 1959	18 August 1959

Source: Appropriation Bills and Appropriation Acts for FY 60 thru FY 69.

6. <u>SUPPLEMENTAL APPROPRIATIONS</u>. When unforeseen events occur which require additional funding during any fiscal year, a fully justified request may be submitted to Congress for a supplemental appropriation. Examples of supplementals enacted during the period of FY 60 through FY 69 are depicted in Table A-4. Policy on supplementals is approved in Bureau of the Budget Circular No. A-11 and Circular A-41.[23]

[22]Defense Industry Bulletin, June 1969, pp. 19-22.

[23]Bureau of the Budget, Circular No. A-11, Preparation and Submission of Annual Budget Estimates, June 1969; and Bureau of the Budget Circular A-41, Submission of Supplemental Estimates and Similar Proposals, 19 February 1966.

TABLE A-4
SUPPLEMENTAL BUDGET REQUEST

Fiscal Year	Date To Congress	Date Of Final Congressional Action	(Public Law Number) And Date Enacted	Purpose Of Supplemental
	17 January 1969			
FY 69	27 March 1969	9 July 1969	(PL 91-47) 22 July 1969	Military Personnel, O&M, Procurement, R&D.
FY 69	9 October 1968	11 October 1968	(PL 90-608) 21 October 1969	Military Assistance.
	11 March 1968			
FY 68	21 May 1968	2 July 1968	(PL 90-392) 8 July 1968	Military Personnel, O&M, Emergency SE Asia Find.
	22 May 1968			
FY 67	24 January 1967	1 April 1967	(PL 90-8) 4 April 1967	SE Asia.
	13 March 1967			
FY 67	23 March 1967	25 May 1967	(PL 90-21) 29 May 1967	Pay increase, Medical Benefits, Homeowners' Ass't.
FY 66	8 March 1966	10 May 1966	(PL 89-426) 13 May 1966	Military & Civilian Pay Increase.
FY 66	19 January 1966	23 March 1966	(PL 89-374) 25 March 1966	Vietnam Special Support Supplemental.
FY 65	4 May 1965	5 May 1965	(PL 89-18) 7 May 1965	Emergency SE Asia Fund.
FY 65	2 March 1965	29 April 1965	(PL 89-16) 30 April 1965	Military Personnel & O&M.
FY 64	21 January 1964	4 June 1964	(PL 88-317) 9 June 1964	Deficiency Appropriation Act.
FY 63	February 1963	15 May 1963	(PL 88-25) 17 May 1963	Personnel, O&M, & Civil Defense.
FY 62	12 July 1961	27 September 1961	(PL 87-332) 30 Sept. 1961	Procurement & Military Construction.
	11 May 1961			
FY 61	26 May 1961	27 June 1961	(PL 87-74) 30 June 1961	Military Personnel & DOD Retired Pay.
FY 61	18 January 1961	30 March 1961	(PL 87-14) 31 March 1961	O&M, R&D, & Personnel.
FY 60	9 February 1960	7 April 1960	(PL 86-424) 13 April 1960	Military Personnel.

Source: OSD Records (Mr. Taylor, Rm 3B877 Pentagon)

VIII. REVISED PLANNING/PROGRAMMING/BUDGETING SYSTEM

1. BACKGROUND

a. The preceding seven chapters displayed the PPBS in effect through CY 69. As stated in paragraph 2 of Chapter I, Department of Defense Instruction (DODI) 7045.7, dated 29 October 1969, brought about numerous changes to the PPBS. This DODI was effective 1 January 1970. On that date DODI 7045.7 dated 22 December 1967, subject: Review and Approval of Changes to the Five-Year Defense Program; DODI 7045.5 dated 31 August 1965, subject: Functional Reviews; and Secretary of Defense Memorandum dated 21 June 1969, subject: Interim Operating Procedures (IOP) Number 1 were cancelled. Certain aspects of the new system were implemented in CY 69 so that the new PPBS could be fully implemented for the FY 72 cycle. These were in the form of integrated staff actions, early publication and dissemination of DODI 7045.7 and the issuance of Secretary of Defense Memorandum dated 20 November 1969, subject: Program/Budget Reviews - Calendar Year 1970 Schedule.

b. In the spring of 1969, the Secretary and Deputy Secretary of Defense initiated a series of meetings with the Secretaries of the Military Departments and the Chairman of the Joint Chiefs of Staff to discuss improvements which could be made to the Department of Defense top level decision-making process. At the same time, a staff effort was undertaken to study ways of simplifying the procedures of the decision making process.

c. As a result of the meetings held by the Secretary of Defense, nine major steps evolved which were to become the framework for the revised Department of Defense PPBS. These nine steps taken in combination with the procedural simplifications which were recommended by the staff level working group have gained acceptance by all Components of the Department of Defense, resulting in the release of the revised DODI 7045.7 of 29 October 1969.[24]

2. BASIC STEPS. The nine basic steps of the procedure for the CY 70 cycle are as follows:

a. Step 1. Volume I, JSOP. Volume I of the JSOP, published in October, is the strategy portion of the JSOP and provides the Joint Chiefs of Staff statement on national security objectives. The statement is based on evaluation of intelligence estimates, decisions of the President, and military objectives. It includes strategic concepts and objectives on both a worldwide and regional basis. It is distributed to the Secretary of Defense and the military departments and Defense Agencies as a major input to their planning activity.

b. Step 2. Strategic Guidance Memorandum. Volume I of the JSOP, on being received in OSD, is subjected to a thorough review and analysis. As a result of this study, the Secretary of Defense prepares a tentative Strategic Guidance Memorandum which is sent to the Joint Chiefs of Staff for comment. This memorandum may update and/or enlarge upon Volume I strategy. Changes are generally based on either modification of national security objectives or commitments made by the President. When major objective, commitment, or strategy changes are indicated, appropriate variations in risk are also assessed. After review and consideration of Joint Chiefs of Staff comments, the Secretary of Defense publishes a Strategic Guidance Memorandum in January. The goal of this issuance is a coordinated, complete and current strategic guidance document for the entire defense community.

[24] Mr. Meyer, Tartasky, Office of the Assistant Secretary of Defense (Comptroller), Interview held at Pentagon, Washington, D. C., 21 November 1969.

c. Step 3. Tentative Fiscal Guidance Memorandum. In January, the Secretary of Defense issues tentative fiscal guidance indicating dollar constraints within which the program is to be developed. The fiscal guidance is projected 5 years into the future by major and support category for each of the Military Departments and Defense Agencies. The document may include the assumptions used in its preparation. The Tentative Fiscal Guidance Memorandum is sent to all Components for comments.

d. Step 4. Volume II, JSOP. While tentative fiscal guidance is being reviewed in January and February, the Joint Chiefs of Staff are completing Volume II, the force structure portion of the JSOP. Volume II provides the Joint Chiefs of Staff position and rationale on major force requirements and recommendations considered necessary to meet DOD portions of our national security objectives. Volume II of the JSOP is prepared without regard to fiscal constraints contained in the Tentative Fiscal Guidance Memorandum. On the publication of Volume II in February, cost and manpower implications are provided by the Military Departments.

e. Step 5. Fiscal Guidance Memorandum. After review of Volume II, JSOP, and all comments on the Tentative Fiscal Guidance Memorandum, the Secretary of Defense issues revised OSD Fiscal Guidance in March. For planning purposes, only two aspects of the fiscal guidance are considered firm. These are total by program year and total by Military Department or Defense Agency. Unless specifically prohibited in the Fiscal Guidance Memorandum, reallocation of funds is permitted between major mission and support categories. This provides the flexibility required for developing balanced programs.

f. Step 6. Joint Chiefs of Staff Joint Force Memorandum. In April the Joint Chiefs of Staff issue a Joint Force Memorandum (JFM) presenting recommendations on force levels and support programs which can be provided within fiscal constraints contained in the Fiscal Guidance Memorandum. This publication includes an assessment of risk in the recommended forces as measured against the strategy and objectives of Volume I of the JSOP and the Secretary of Defense Strategic Guidance Memorandum. It also highlights major force issues to be resolved during the year. Additionally, it compares costs of its recommendations with the approved FYDP program baseline. Copies of the JFM are sent to OSD for review and the Military Departments and Defense Agencies for assistance in their planning activities.

g. Step 7. Program Objective Memorandum. In May, each Military Department and Defense Agency submits a Program Objective Memorandum (POM) to the Secretary of Defense. POMs, based on the strategy guidance and fiscal constraints of the previous six steps, express total program requirements. They express force, manpower and cost implications. Additionally, they provide a rationale for deviations from the FYDP base file and the JCS JFM, as well as any military gains and an assessment of any risks resulting from these deviations. POM supporting data is in program element terms.

h. Step 8. Program Decision Memorandums. Based on a thorough review of Volume I and II of the JSOP, the JCS Joint Force Memorandum and Military Department/Defense Agency POMs, The Secretary of Defense issues appropriate Program Decision Memorandums (PDMs). PDMs are accompanied by a resource annex providing translation of resources to FYDP program elements. PDMs are submitted to appropriate components for analysis and comment and are reflected in the FYDP. Issuance of PDMs for FY 70 are to be completed by 24 July 1970. Comments must be submitted within 2 weeks and include impact expected as a result of the PDM. If a dissenting view is expressed, any information not included in the original POM should be attached to allow full reevaluation of the issue involved. The Secretary of Defense directs a staff review of all comments, and any new decisions are reflected in a modified PDM. If considered necessary, the Joint Chiefs and Service Secretaries meet with the Secretary of Defense to discuss and resolve any remaining Major Force Issues. This meeting or series of meetings result in the final PDMs to be made a part of the FYDP prior to starting the budget portion of the PPB cycle.

i. Step 9. Budget Estimates. On 30 September, each Military and Defense Agency submits its budget estimate to the Secretary of Defense. Estimates are based on approved programs resulting from the various decision documents. The Secretary of Defense directs a review of budget estimates by the OSD staff working with representatives of the BOB. As a result of this review and analysis, the Secretary of Defense publishes a series of PBDs. Late in December, the completed DOD budget is sent to the BOB for approval. When approved, it becomes a part of the Presidents Budget submitted to the Congress early in January.[25]

3. CHANGES IN REVISED PPBS. In summary, the significant changes incorporated in the revised PPBS, DODI 7045.7 dated 29 October 1969, are as follows:

a. Strategic Guidance Memorandum and Fiscal Guidance Memorandum. Prior to the revised PPBS, national security objectives and the strategy to meet these objectives were developed by the Joint Chiefs of Staff without guidance from the Secretary of Defense. Further, the Joint Chiefs of Staff were not provided fiscal guidance for use in the development of forces to meet this strategy. As a result, the force posture recommended to the Secretary of Defense in the annual submission of the JSOP was so ambitious it was fiscally and politically unacceptable. Thus, the Joint Chiefs of Staff recommendations had little impact on the FYDP. During the McNamara years, the forces in the FYDP were developed in virtual isolation by OSD Systems Analysis and only after the pattern had been set were the Military Departments and JCS asked to comment. The revised PPBS is designed to shift the planning responsibility back to the Services. The guidance portrayed in the Strategic Guidance Memorandum (Step 2), along with Volume I of the JSOP, serves as a planning document in the formulation of Volume II and III, JSOP, the JFM, and the POMs.[26] After issuance of the Strategic Guidance Memorandum, the Secretary of Defense then develops the Fiscal Guidance Memorandum (Steps 3 and 5). Concurrently with the tentative and final Fiscal Guidance Memorandums, the Secretary of Defense also issues tentative and final Logistics Guidance Memorandums for materiel acquisition. The Secretaries of the Military Departments will participate in the development of the revised fiscal guidance. In developing the revised fiscal guidance, consideration will also be given to the current budget, the FYDP, program deferrals, inflationary trends, gross national product estimates, and other economic considerations.[27]

b. Joint Force Memorandum. The Joint Chiefs of Staff develop and submit annually to the Secretary of Defense the JFM (Step 6). The JFM will present the recommended force levels and support programs, similiar in format to Volume II of the JSOP (Step 4), but the JFM is developed within the parameters of the fiscal guidance issued by the Secretary of Defense.[28]

c. Program Objective Memorandum. The military departments and Defense Agencies develop and submit annually to the Secretary of Defense the POM (Step 7). The POMs are based on the Strategic Guidance in Volume I, JSOP, as modified by Secretary of Defense Strategic Guidance Memorandum. They are further based on the Fiscal Guidance Memorandum, Volume II, JSOP, and the JFM. POMs may be revised after submission when the originator believes that such a revision will result in a better balanced program. Recommended POM changes should be made only when the change may be completely processed to permit analysis with the originally submitted POM, that is, in advance of a Secretary of Defense decision on a POM. POM revisions will include an identification of equal cost trade-offs within annual military department and Defense Agency totals to preclude increases to the fiscal constraints. The POM revisions will identify equal or greater effectiveness in addition to cost trade-offs. When changes cannot be processed in time to be included in a Program Decision Memorandum for a specific program, such changes will be processed using a PCR provided the change will increase military readiness significantly and is considered of such an urgent nature to require Secretary

[25] Ibid.

[26] Department of Defense Instruction 7045.7, The Planning, Programming and Budgeting System, 29 October 1969.

[27] Ibid.

[28] Ibid.

of Defense review out of cycle, or involve interservice functional transfers which create manpower authorization increases to end year strengths.[29]

d. Program Decision Memorandum. PDMs (Step 8 above) are similar to DPMs/MPMs in the PPBS prior to DODI 7045.7, 29 October 1969. They differ from the standpoint that the Joint Chiefs of Staff, Military Departments and Defense Agencies have contributed to their development thru the JSOP, JRDOD, JFM, POMs and PCRs where applicable, and their position is already known. Another difference is the time element permitted for comment replies of the Joint Chiefs of Staff, Military Departments and Defense Agencies. Comments, as appropriate, are required within 2 weeks after receipt of each PDM. Thirty days were allowed for comments to DPMs/MPMs. PDMs also have a resource annex, which is in sufficient detail and in the proper format to be used in updating or changing the FYDP.[30]

e. Approved Program Changes. The heart of the PPBS is still the FYDP. The receipt of a PDM, DCP, PDC, PBD, DD Form 1415 Reprogramming Action, or Secretary of Defense memorandum reflecting the decision of the Secretary of Defense will constitute a new approved program base when entered into the FYDP by the Military Departments and Defense Agencies. Changes to the approved base for the budget and program years will be made only by subsequent PDMs, PCDs, DCPs, or PBDs, or by military departments or Defense Agencies within the established thresholds of DODI 7045.7. DCPs will be entered into the FYDP and data reviewed and approved by DDR&E. Data changes will be announced on R&D programs by DDR&E using PCDs or addressed in the R&D PDM. Subsequent to the receipt of a PDM and prior to the next Military Department or Defense Agency POM submission date, Secretaries of the Military Departments and Directors of Defense Agencies will be permitted to make changes to the FYDP without prior approval by the Secretary of Defense when such changes are confined within the thresholds contained in DODI 7045.7 and DODI 7250.10.[31]

f. Budget Analysis Period. As indicated in Chapter VII, paragraph 5, the period of October through December each year is often referred to as the budget analysis period. Under the former PPBS system, the Services submitted their budget estimates to OSD on 1 October each year. These budget estimates were then trimmed down some $20 to $25 billion within OSD in a frantic October-December scramble. With the new PPBS, the original budget estimates submitted by the Services will be much closer to a preset final figure, and the October-December period will be used by OSD for refining the budgets and for resolving what should be a relatively few major issues still unresolved at budget-submission time.

4. CALENDAR YEAR SCHEDULE. Secretary of Defense Memorandum dated 20 November 1969, Subject: Program/Budget Reviews-Calendar Year 1970 Schedule, expressed the schedule for the more significant actions of the PPB cycle for CY 70. Guidance was provided in detail in this memorandum on the FYDP base program, strategic guidance, fiscal guidance, logistic guidance, JSOP Volume II, JFM, POMs, PDMs, program/budget reviews, extension of program, assumptions of hostilities and general guidance. The schedule for submission of Volume I of the JSOP and the Tentative Strategic Guidance Memorandum are not included in this memorandum, as they occurred in CY 69 and were covered in other memorandums. Timing of the various actions in this schedule and additional changes to the PPBS will possibly occur in the CY 71 schedule, as changes through experience deem it appropriate. To better portray the timing of events as they occur, the CY 70 schedule provided for the readers benefit as follows:

[29] Ibid.
[30] Ibid.
[31] Ibid.

TABLE A-5

PROGRAM/BUDGET REVIEW SCHEDULE CALENDAR YEAR 1970

Item	Action	Agency	Action Date
1.	Update FYDP (through FY 1971 President's Budget)	C	5 Jan 70
2.	Issue Tentative Logistic Guidance Memorandum	O	15 Jan 70
3.	Submit Volume III, JSOP - Free World Forces	J	15 Jan 70
4.	Issue Strategy Guidance Memorandum	O	15 Jan 70
5.	Issue Tentative Fiscal Guidance Memorandum	O	15 Jan 70
6.	Submit Comments on Logistic and Fiscal Guidance Memoranda	JC	12 Feb 70
7.	Issue FYDP Update Guidance Memorandum	O	12 Feb 70
8.	Submit JSOP, Volume II (FY 72-79) - Analysis and Force Tabulations	J	18 Feb 70
9.	Submit Joint Research and Development Objectives Document (JRDOD)	J	25 Feb 70
10.	Update FYDP for Outyear Impact	C	2 Mar 70
11.	Reissue Logistic and Fiscal Guidance Memoranda based on review of comments	O	4 Mar 70
12.	Issue Schedule for Publication of PDMs	O	5 Mar 70
13.	Submit Joint Force Memorandum (JFM)	J	22 Apr 70
14.	Submit Program Objective Memorandum (POM)	C	15 May 70
15.	Conduct Apportionment Review	O	1 Jun 70
16.	Issue Budget Guidance for Preparation of FY 1972 Budget	O	15 Jun 70
17.	Issue Revised Program/Budget Review Schedule as necessary	O	15 Jun 70
18.	Issue FYDP Update Guidance	O	1 Jul 70
19.	Complete Issue of Program Decision Memorandums to DOD Components, including R&D Program	O	24 Jul 70
20.	Prepare and provide comments on Decisions to Secretary of Defense, including R&D Program	JC	10 Aug 70
21.	Update FYDP responding to Secretary of Defense Decision Documents	C	24 Aug 70
22.	Issue revised decisions based on comments, including R&D Program	O	31 Aug 70
23.	Submit Annual Budget Estimates and Backup Information	C	30 Sep 70
24.	Issue Annual Program/Budget Review Schedule Memorandum	O	1 Oct 70

TABLE A-5 (Continued)

Item	Action	Agency	Action Date
25.	Start Budget Hearings	O	5 Oct 70
26.	Update FYDP responding to revised Decisions	C	12 Oct 70
27.	Start Issue of PBDs	O	2 Nov 70
28	Provide Reclama Statements on PBDs	C	10 Nov 70- 1 Dec 70
29.	Reissue PBDs based on Reclamas	O	16 Nov 70- 15 Dec 70
30.	Sec Def, JCS, and Service Secretaries discuss Major Budget Issues	O	4 Dec 70
31.	Reissue PBDs resulting from Budget Issue Review	O	11 Dec 70

LEGEND: O = Sec Def　　C = Military Departments and Defense Agencies
J = JCS　　JC = JCS, Military Departments & Defense Agencies

5. **SUMMARY.** In summary, the revised PPBS provides:

a. Specific strategic and fiscal guidance to the Services;

b. More flexible force level guidance;

c. Greater Service participation at each step of the PPB cycle and more Service freedom in reallocating proposed resources, but also more Service responsibility for insuring the efficient and economic management of resources;

d. A major shift in planning responsibilities from OSD Systems Analysis to the Services;

e. Initiation of budget reductions earlier in the budget preparation cycle; and

f. Provides for more stringent cost control throughout.

APPENDIX B

STOCK FUND PROGRAM ACTIONS

1. GENERAL

a. The paragraphs which follow include tabulations of the programs as established and revised each year for each stock fund from FY 65 through the first half of FY 70. Each program is expressed in terms of the planned net sales and obligations, the difference between the two representing the amount by which the investment in inventory on hand and on order is changed through issues and new procurement. This is an oversimplification of the factors required to describe a stock fund program fully, but is the most meaningful manner of indicating briefly the significance of the program actions proposed and approved.

b. For each fund, the data presented are totals for all activities, including for the Army and Air Force the activities which were exempted from apportionment. Programs actually are prepared and reviewed separately for each Division within a fund, so that the totals conceal some offsetting adjustments between Divisions. The amounts approved for individual Divisions are not statutory limitations on obligations but are considered administrative limitations which can be modified, within the limiting total, by a military department, provided informal concurrence is obtained from staff of the Office of the Assistant Secretary of Defense (Comptroller).

c. Formal program actions are recorded in budget documents and in apportionments (DD Form 1105). As a minimum, reviews of the programs for each fiscal year are conducted and recorded in formal actions in two annual budgets and at least two apportionments. The first review is processed during the period 6 to 12 months before the beginning of the fiscal year (to prepare the Budget Year program in the President's Budget). The second is the initial apportionment review processed during the two months before the beginning of the fiscal year and scheduled to result in an approved program prior to 1 July. The third is the review of the current year program, processed during the first 6 months of the fiscal year as a part of the annual budget review and producing the current year data in the President's Budget. The fourth is the apportionment adjustment, based on the budget review and the results of actual operations through the first half of the fiscal year, which should accomplish any needed changes in the years program before the beginning of the last quarter.

d. Unless programs are relatively stable, it is not unusual for apportionment adjustments to be made more frequently than the minimum. These may be requested in the first half of the year when increased requirements are of a magnitude that does not permit waiting until after the budget review to obtain increased authorizations. They also occur during the last quarter when it becomes apparent late in the fiscal year that actual developments are differing from the judgments and assumptions made in the earlier reviews, so that program changes must be recognized unless supply operations are to be subjected to financial constraints during the last quarter.

e. Caution must be used in considering both the dates and amounts shown as Service requests in the tabulations. There have been many occasions when OSD/BOB review of a proposed Service program change was initiated prior to receipt of a formal program request document, which was processed only after informal advice of the OSD position was received by the Service. There have also been Service requests that were withdrawn and resubmitted after the OSD review. In these cases, where the events are difficult to identify at a subsequent date, both the time lag between the Service request and OSD action and the magnitude of program adjustments made in OSD are understated on the record.

f. On the whole, it must be considered from the record that OSD/BOB action was highly responsive to program change requirements. It is evident that urgent program change requirements received expedited processing and that decisions were made reasonably promptly on program submissions. Viewed in retrospect, uncertainties in determining requirements were common to all staff levels preparing and reviewing supply programs during the Vietnam era and there were areas in which OSD/BOB analysts accepted inadequate justifications as well as areas in which they were too reluctant to recognize increased needs. The logistical support which was dependent on stock fund financing is generally considered to have reached the combat area in adequate quantities and with reasonable timeliness. Despite the program objectives, financial limitations were not successful in preventing the accumulation of substantial quantities of excess inventories of expense-type materiel both in Southeast Asia and in some parts of the CONUS depot system. Under the circumstances, however, it would be difficult to conclude that program decisions could have been significantly more accurate than they were or that errors in judgment were not relatively minor.

g. During the 5-year period from FY 65 through FY 69, net sales (reimbursable issues) of the five stock funds amounted to $52.8 billion. During the same period, the aggregate obligations exceeded the issues by $2.2 billion. In addition, a net amount of $3.6 billion of inventories was capitalized in the stock funds during these 5 years, most of which was during FY 69. The overall result was an increase in the total stock fund inventories by $5.4 billion, from $5.7 billion at the end of FY 64 to $11.1 billion at the end of FY 69.

h. The tables which are presented for each stock fund fail to reveal certain factors which were particularly pertinent in some apportionment actions. For example, actions during the last quarter of a fiscal year are often related to commitment authority which provides financing for the administrative lead time period before an obligation is incurred. There are internal fiscal procedures which can be used by inventory control points to permit taking pre-aware procurement steps without the availability of commitment or obligation authority. Inventory managers and procurement activities prefer, however, to have the assurance of financial program support that is provided by the reservation of funds against commitment authority when procurement requests are initiated. In most cases, administrative lead time in the distribution of funding authority and in the procurement process are such that it is difficult for obligations to be incurred prior to 30 June unless they have been authorized prior to the beginning of the last quarter. Recognition of increased requirements in the last quarter, therefore, may take the form of reprogramming approval or increased commitment authority, when it is clear that there is not sufficient time before 30 June for the total obligations incurred to be increased.

i. In addition, the data showing the relationship between sales and obligations does not reveal the impact of unfilled customer orders. Materiel should be on order to cover all requisitions placed on backorder because stock is not available for issue. Accordingly, sales which lag below the programmed amount may not indicate decreased procurement requirements where the anticipated demands have resulted in increased unfilled orders. Conversely, a decline in unfilled orders may indicate a greater decrease in obligation requirements than would be related to a change only in the level of sales. As indicated in the Supply Operations monograph and the DSA-GSA Support monograph, FY 66 and FY 67 were generally years of increasing backorders, indicating that demands were exceeding current sales, while in subsequent years the back orders were decreasing and demands on which stock level requirements are based were lower than the rate of sales.

2. ARMY STOCK FUND

a. For each fiscal year, Table B-1 show the chronological development and change of the total annual program. In each year through FY 69, the first line is the budget year program in the Budget and the last line is the actual data reported at the end of the year. The intervening lines are apportionments on DD Form 1105, identified by number, with the current year program revision in the President's Budget inserted at the applicable point. In a few cases, there have been program actions, shown as unnumbered, which did not involve a DD Form 1105 and were otherwise recorded (such as, approval of reprogramming of commitment authority to obligation authority near the end of a fiscal year).

TABLE B-1

ARMY STOCK FUND PROGRAM
(In Millions of Dollars)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	Date OSD	Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1965				
In FY 65 Budget				(Dec 1963)		2106	2027
1	16 Jun 64	2481	2262	17 Jun	24 Jun	2428	2250
In FY 66 Budget		2484	2384	(Dec 1964)		2233	2083
2	15 Jan 65	2233	2114	22 Jan	1 Feb	2233	2034
3	8 Mar 65	2273	2145	8 Mar	11 Mar	2273	2145
4	26 Apr 65	2327	2267	29 Apr	12 May	2276	2175
5	6 May 65	2277	2231	10 May	12 May	2277	2231
6	21 May 65	2277	2281	21 May	21 May	2277	2281
7	1 Jun 65	2288	2309	2 Jun	10 Jun	2288	2322
Actual						2265	2330
			Fiscal Year 1966				
In FY 66 Budget		2550	2446	(Dec 1964)		2280	2117
1	8 Jun 65	2493	2218	30 Jun	13 Jul	2417	2116
2	3 Sep 65	2796	2765	10 Sep	15 Sep	2773	2637
3	19 Nov 65	3028	3164	22 Nov	26 Nov	3028	3164
In FY 67 Budget		3256	4038	(Dec 1965)		3155	3690
4	23 Dec 65	3155	3690	28 Dec	4 Jan	3155	3690
5	25 Feb 66	3413	4041	3 Mar	8 Mar	3234	3889
6	1 Apr 66	3333	4487	6 Apr	8 Apr	3333	4256
7	7 Apr 66	3345	4506	12 Apr	15 Apr	3345	4403
8	3 May 66	3345	4451	Returned			
8	25 May 66	3263	4556	26 May	27 May	3253	4458
X	3 Jun 66	3253	4518	7 Jun	X	3253	4518
Actual						3173	4464
			Fiscal Year 1967				
In FY 67 Budget		3784	3788	(Dec 1965)		3688	3510
1	23 Jun 66	4443	3995	30 Jun*	1 Jul	3186	3105
2	26 Oct 66*	3351	3232	2 Nov*	7 Nov	3351	3232
In FY 68 Budget		5203	6148	(Dec 1966)		4902	4857
3	20 Dec 66	4891	5202	29 Dec*	5 Jan	*3705	3974

*Not for full fiscal year; represents nine months program.

TABLE B-1 (Continued)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
4	21 Mar 67	4701	4519	30 Mar	4 Apr	4533	4372
5	14 Apr 67	4701	4519	9 May	10 May	4701	4519
6	23 May 67	4659	4720	20 Jun	20 Jun	4643	4656
Actual						4476	4563
Fiscal Year 1968							
In FY 68 Budget		2577	5289	(Dec 1966)		4231	3950
1	30 Jun 67	4376	4709	30 Jun	30 Jun	4222	3718
2	5 Sep 67	4440	4055	Returned			
2	27 Sep 67	4440	4055	28 Sep	11 Oct	4369	4004
3	X	X	X	25 Nov	7 Dec	4369	4004
In FY 69 Budget		4462	4576	(Dec 1967)		4369	3989
4	25 Jan 68	4369	3986	Returned			
5	12 Mar 68	4017	3990	14 Mar	20 Mar	3974	3675
6	5 Jun 68	4016	3833	20 Jun	21 Jun	4011	3809
Actual						3935	3790
Fiscal Year 1969							
In FY 69 Budget		4558	5097	(Dec 1967)		4266	4109
1	25 Jun 68	4074	3852	29 Jun	8 Jul	4026	3560
In FY 70 Budget		4178	4067	(Dec 1968)		4107	3740
2	7 Mar 69	4089	3777	26 Mar	4 Apr	4031	3686
Actual						3926	3657
Fiscal Year 1970							
In FY 70 Budget		4213	4208	(Dec 1968)		4118	4084
1	18 Jun 69	3931	3873	24 Jun	1 Jul	3907	3755
X	X	X	X	12 Sep	X	3790	3362
In FY 71 Budget		3733	3386	(Dec 1969)		3704	3165

b. In FY 65 the Army Stock Fund program was overstated in the initial apportionment and was therefore cut back in the fall budget review and in the related reapportionment in January 1965. Although actual issues by 30 June were little more than was estimated in the preceding fall, five reapportionments were processed between March and June to provide additional obligation authority to support developments in Vietnam. These program increases were relatively small and obviously reflected an inability to determine the extent of the increased requirements which were pending.

c. In FY 66 the initial apportionment in June 1965 was consistent with the program level recognized at that time. The escalating requirements during the year resulted in eight reapportionments and program increases between September and early June. Actual sales for the year were almost exactly the total amount estimated by OSD in the fall budget review, although the Army repeatedly submitted higher estimates. The obligations programmed were increased from the initial \$2,116 million to \$3,690 million in three actions between September and December. The last increase reflected the guidance given to the Army to make some "selective increases, on a temporary basis, in the wholesale supply levels of secondary items in order to enhance responsiveness to unanticipated surges in demand due to Southeast Asia operations."[1] After the midyear review, five additional program increases were processed during the period from February through June 1966, which increased the obligation authority by an additional \$828 million to \$4,518 million. At the end of the fiscal year, a net investment change (excess of obligations over net sales) of almost \$1.3 billion had been made in the Army Stock Fund, although no additional capital was appropriated during the year.

d. On the basis of specific guidance provided by the Secretary of Defense the initial FY 67 apportionment in June 1966 covered estimated sales for nine months and the estimated obligations which would have to be incurred prior to 1 April 1967.[2] The amounts initially estimated were only slightly low, since they turned out to be 71 percent of the actual sales for the year and 68 percent of the actual obligations. One interim program increase was processed in October and the program was substantially increased at the end of December after the budget review. Three additional reapportionments between March and June increased the approved obligations by \$682 million to \$4,656 million. The last two increases were made somewhat reluctantly by OSD, to alleviate particular areas where urgent requirements were unfunded, because sales were clearly falling below the amounts previously anticipated and because of concern that excessive quantities of some items were being purchased. Accordingly, the Deputy Secretary of Defense forwarded to the Army specific guidelines for requirements determinations on which procurements were authorized to be based and directed cancellation of commitments and of orders, where practicable, when in excess of the guideline objectives.[3] At the end of the fiscal year, actual net sales were \$426 million lower than had been anticipated in the budget review during the second quarter of the year. Actual obligations were \$87 million greater than the net sales, although planned in the budget to be \$45 million lower than the net sales.

e. In recognition of the excess stocks in the Pacific and the reduced pipeline requirements related to more efficient supply operations, a significantly lower stock fund program for FY 68 was reflected in the initial apportionment in June 1967. An increase was made in September prior to the fall budget review, followed by a decrease in March, after the midyear review. Part of the March reduction in authorized obligations was restored in June, in view of the Army's inability to restrain procurement reasonably, to the extent desired by OSD. At the end of the fiscal year, actual net sales were \$434 million lower than had been programmed in the budget review during the second quarter. Obligations also were \$199 million lower, but the net investment reduction was only \$145 million where a \$380 million reduction had been budgeted.

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[1] Deputy Secretary of Defense (Comptroller) Memorandum, subject: Army Stock Fund Operations, 29 November 1965.

[2] Secretary of Defense Memorandum, subject: Initial Program and Financial Plan for FY 67, 22 June 1966.

[3] Deputy Secretary of Defense (Comptroller) Memorandum, subject: Army Stock Fund Operations, 9 May 1967.

TABLE B-2

NAVY STOCK FUND PROGRAMS
(In Millions of Dollars)

		Service Request		OSD/BOB Approved			
Serial No.	Date	Net Sales	Obligations	Date OSD	Date BOB	Net Sales	Obligations
			Fiscal Year 1965				
In FY 65 Budget		1252	1221	(Dec 1963)		1252	1190
1	11 Jun 64	1223	1182	16 Jun	22 Jun	1223	1182
2	X	X	X	30 Sep	X	1223	1190
In FY 66 Budget		1201	1194	(Dec 1964)		1201	1155
Actual						1206	1172
			Fiscal Year 1966				
In FY 66 Budget		1205	1169	(Dec 1964)		1205	1134
1	14 Jun 65	1217	1153	30 Jun	13 Jul	1217	1153
2	X	X	X	30 Sep	X	1217	1153
In FY 67 Budget		1378	1483	(Dec 1965)		1391	1467
3	6 Jan 66	1391	1667	10 Jan	13 Jan	1217	1353
4	X	X	X	13 Jan	18 Jan	1391	1667
5	21 Feb 66	1410	1714	28 Feb	3 Mar	1410	1701
6	24 Mar 66	1410	1501	19 Apr	26 Apr	1410	1501
7	13 May 66	1410	1528	17 May	27 May	1410	1528
8	27 May 66	1410	1532	Returned			
Actual						1405	1508
			Fiscal Year 1967				
In FY 67 Budget		1413	1440	(Dec 1965)		1481	1502
1	19 May 66	1481	1504	30 Jun*	1 Jul	1061	1061
2	13 Oct 66*	1061	1061	21 Oct*	27 Oct	1061	1061
In FY 68 Budget		1536	1733	(Dec 1966)		1511	1548
3	27 Dec 66*	1094	1278	29 Dec*	4 Jan	1094	1278
4	2 Mar 67*	1127	1328	8 Mar*	10 Mar	1127	1328
5	22 Mar 67	1555	1700	30 Mar	4 Apr	1550	1686
6	20 Apr 67	1595	1753	Withdrawn			
7	1 May 67	1613	1771	4 May	10 May	1613	1771
Actual						1553	1707

*Not for full fiscal year; represents nine months program.

TABLE B-2 (Continued)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	Date OSD	Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1968				
In FY 68 Budget		1628	1630	(Dec 1966)		1602	1587
1	8 Jun 67	2010	2054	30 Jun	30 Jun	1986	1915
In FY 69 Budget		1919	2032	(Dec 1967)		1914	1908
2	22 Nov 67	1919	2032	25 Jan	31 Jan	1914	19t8
3	15 Mar 68	1849	1967	22 Mar	27 Mar	t849	1908
4	23 Apr 68	1849	1918	Returned			
4	5 Jun 68	1818	1902	26 Jun	28 Jun	1819	1901
Actual						1805	1874
			Fiscal Year 1969				
In FY 69 Budget		2594	2598	(Dec 1967)		2585	2418
1	5 Jun 68	2508	2522	26 Jun	3 Jul	2508	2322
In FY 70 Budget		2528	2538	(Dec 1968)		2349	2265
2	14 Jan 69	2349	2265	27 Jan	3 Feb	2349	2265
3	20 Mar 69	2413	2412	8 Apr	1[illegible] Apr	2413	2347
Actual						2277	2229
			Fiscal Year 1970				
In FY 70 Budget		2917	3025	(Dec 1968)		2910	2762
1	16 Jun 69	2852	2910	25 Jun	1 Jul	2852	2723
2	3 Oct 69	2767	2597	15 Oct	21 Oct	2767	2597
In FY 71 Budget		2376	2573	(Dec 1969)		2192	2117

f. The initial FY 69 apportionment was revised only once during the year, in March following the midyear review. This adjustment was a relatively small increase in both sales and obligations. The actual sales at the end of the year were $100 million lower than the initial apportionment program, but obligations were $97 million higher, with a $269 million reduction in net investment.

3. NAVY STOCK FUND

a. Table B-2 portrays the requested and approved programs in the same manner as the Army programs were presented in the preceding section.

b. The FY 65 program for the Navy Stock Fund was stable and was not really affected by developments in Vietnam. The impact in FY 66, however resulted in four reapportionments providing program increases between January and May 1966. These included a special authorization of $200 million, withdrawn after enactment of the supplemental appropriation in March, to finance ordering of construction materials in advance of the availability of additional appropriations for military construction in Vietnam.

c. As described in the section discussing the Army program, the initial apportionment for FY 67 was made on a nine months basis. Significant program increases were processed at the end of December and in early March before the program was increased at the end of March to cover the full year. A further increase, only a small part of which was reflected in the actual results at the end of the year, was processed in May. At the end of the fiscal year, the net investment increase was $154 million, compared to an increase of $37 million planned in the budget review in the second quarter.

d. The program in the initial FY 68 apportionment in June 1967 was considerably higher than the program for the preceding year, due to procedural changes in stock fund utilization. Three reapportionments were processed during the last half of the fiscal year, which reduced the estimated sales but did not change the total obligations approved. Substantially increased requirements for Da Nang were provided, however, with offsetting reductions in other areas. At the end of the fiscal year, a net investment increase of $69 million had occurred, although a decrease of $6 million was planned in the budget review in the second quarter. Most of the change was due to increasing the pipeline to Da Nang.

e. The FY 69 program was adjusted by two reapportionments during the year. The first was made at the end of January and reduced both the estimated sales and obligations. The second was an increase made in April to cover the anticipated effect of procedural changes but proved, in fact, to be neither needed nor used. The actual net investment decrease during the year of $48 million was somewhat less than the $84 million which had been planned in the budget review in the second quarter. In the management of the depot stocks of both ships parts and electronics, the inventory control points were under continuing financial pressures to meet the program objectives approved by OSD.

4. MARINE CORPS STOCK FUND

a. Table B-3 presents the Marine Corps Stock Fund programs.

b. In FY 65, a small increase in issues from the Marine Corps Stock Fund took place in the latter part of the year and corresponding increases in obligation authority were provided in reapportionments during April and May. The initial apportionment at the beginning of FY 66 was based on the pre-Vietnam budget program. The greatly increased requirements were recognized in the budget review in the fall of 1965 and authorized in a reapportionment in January. Additional obligation authority was provided in reapportionments during April and June, although actual sales did not reach the levels estimated in the second quarter of the year. At the end of the year, the actual net investment increase amounted to $75 million.

c. The initial apportionment for FY 67, in June 1966, covered only a nine months estimate, as in the case of all other stock funds. A substantial program increase was processed in December, after the fall budget review, and the reapportionment to cover the full year was processed at the end of March. Actual sales for the fiscal year were substantially less than had been projected, so that a net investment increase of $49 million occurred when an increase of $11 million had been approved in the budget.

d. The initial apportionment for FY 68 was based on the higher rate of sales that had been estimated in the spring of 1967, but also provided for a substantial reduction in the CONUS inventory levels which were in excess of computed requirements. In March 1968, the reapportionment following the midyear review, was based on a much lower sales estimate, with a relatively small decrease in the obligations authorized. Procurement during the early part of the fiscal year had proceeded so rapidly, however, before requirements were adjusted to reflect the actual rates of demands and issues in calendar year 1967, that funding authority was fully committed early in the fourth quarter. On 3 May 1968, OSD was advised that procurements of urgently needed items could not be made and that troop support would be in jeopardy unless

TABLE B-3

MARINE CORPS STOCK FUND PROGRAMS
(In Millions of Dollars)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1965				
In FY 65 Budget		131	149	(Dec 1963)		131	120
1	11 Jun 64	130	119	16 Jun	22 Jun	130	119
2	13 Oct 64	130	124	29 Oct	5 Nov	130	119
In FY 66 Budget		130	134	(Dec 1964)		130	123
3	1 Apr 65	130	123	8 Apr	21 Apr	130	123
4	11 May 65	133	125	27 May	2 Jun	133	125
Actual						135	123
			Fiscal Year 1966				
In FY 66 Budget		133	136	(Dec 1964		133	121
1	14 Jun 65	133	121	30 Jun	13 Jul	133	121
2	8 Oct 65	133	125	12 Oct	15 Oct	133	121
In FY 67 Budget		188	240	(Dec 1965)		205	224
3	6 Jan 66	205	224	13 Jan	18 Jan	205	224
4	24 Mar 66	205	244	6 Apr	8 Apr	205	244
5	18 May 66	226	288	3 Jun	10 Jun	226	288
Actual						193	268
			Fiscal Year 1967				
In FY 67 Budget		225	260	(Dec 1965)		225	191
1	13 May 66	261	211	30 Jun*	1 Jul	189	156
2	21 Oct 66*	189	156	31 Oct*	4 Nov	189	156
3	9 Nov 66*	235	169	8 Dec*	13 Dec	238	261
In FY 68 Budget		324	373	(Dec 1966)		315	326
4	22 Mar 67	315	336	30 Mar	4 Apr	315	336
5	2 Jun 67	315	336	Withdrawn			
Actual						253	302

*Not for full fiscal year; represents nine months program.

TABLE B-3 (Continued)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1968				
In FY 68 Budget		311	309	(Dec 1966)		311	309
1	3 Jun 67	330	304	30 Jun	30 Jun	330	267
2	X	X	X	X	29 Dec	330	267
In FY 69 Budget		285	283	(Dec 1967)		243	232
3	21 Mar 68	272	266	27 Mar	29 Mar	243	251
4	3 May 68	243	286	Returned			
Actual						250	237
			Fiscal Year 1969				
In FY 69 Budget		270	327	(Dec 1967)		246	244
1	24 Jun 68	251	234	29 Jun	8 Jul	251	231
In FY 70 Budget		251	234	(Dec 1968)		251	236
2	14 Jan 69	251	236	31 Jan	17 Feb	251	236
3	1 Apr 69	260	253	Returned			
4	16 Jun 69	260	253	Returned		259	243
Actual						263	235
			Fiscal Year 1970				
In FY 70 Budget		296	323	(Dec 1968)		258	241
1	16 Jun 69	270	244	25 Jun	1 Jul	262	245
2	3 Oct 69	254	235	15 Oct	30 Oct	254	235
In FY 71 Budget		273	291	(Dec 1969)		255	255

immediate funding relief was granted.[4] The OSD disapproval of this request was based primarily on a determination that the recorded reservations of funds included such large amounts that could not result in obligations prior to 30 June that ample obligation authority was really available to cover all the requirements.[5] It was also pointed out that consideration had to be given in initiating procurements, to the program reductions in prospect for FY 69. Although the correctness of the OSD analysis cannot be disputed, using hindsight, the Marine Corps was required to undertake difficult reprogramming actions. There is little doubt that needed procurements were curtailed and deferred during this difficult period. The imperfect manner in which the reprogramming was accomplished is illustrated by the fact that actual obligations at the end of the fiscal year were $14 million less than the $251 million authorized. Because of

[4] Assistant Secretary of the Navy (Financial Management) Memorandum, subject: Request for Additional Obligational Authority and Cash for Marine Corps Stock Fund, 3 May 1968.

[5] Assistant Secretary of Defense (Comptroller) Memorandum, subject: Request for Additional Obligational Authority and cash for Marine Corps Stock Fund, 16 May 1968.

this shortfall and some increase in sales recorded at the end of the year, the actual net investment reduction for FY 68 was $13 million. The budget had projected a reduction of only $11 million.

e. In FY 69, the program in the initial apportionment reflected estimated sales and authorized obligations somewhat lower than were actually reported at the end of the year. The only reapportionment followed the midyear review and approved the slight increase in obligations. A reprogramming action in June approved a further increase in both sales and obligations, although no reapportionment was made. The actual net investment reduction at the end of the year was $28 million, exceeding the reduction of $20 million programmed in the initial apportionment and the revised reduction of $16 million planned in the fall budget review. Although inventories on hand were still very high, the stratifications at the end of FY 69 indicated that $112 million of the material in the Stock Fund was in long supply and not applicable to requirements. A substantial part of this materiel apparently was derived from the net inventory investment made in FY 66 and FY 67.

5. AIR FORCE STOCK FUND

a. The Table B-4 present the Air Force Stock Fund programs.

b. The FY 65 program for the Air Force Stock Fund was quite stable. Although a reapportionment was processed in May, the actual results at the end of the year were consistent with the initial apportionment made in June 1964. In FY 66, a moderate program increase was approved in March, following the midyear review. The actual totals reported at the end of the year were almost identical with the midyear review estimates.

c. The initial program for FY 67 was established on a nine months basis, as for the other Service. An interim increase was processed in February 1967, prior to approval of the program for the full year at the end of March. Further increases were made in May and June on the basis of specifically identified higher requirements for fuels and related items, including herbicides. Actual sales were greater than had been estimated so that the net investment increase of $46 million at the end of the fiscal year, although slightly higher than the estimate approved in the budget review in the second quarter, was considerably lower than in the programs approved in May and June.

d. Very little of the Air Force Stock Fund was subject to apportionment in FY 68. The approved programs were adjusted upward in the fall budget review and twice in the second half of the fiscal year, in March and June. Both actual sales and obligations reported at the end of the year were considerably greater than the program estimates in June. The net investment increase of $141 million made during the year exceeded the increase of $89 million approved in the Budget, but was only slightly higher than the $125 million increase reflected in the revised program approved in June. Apportionment for FY 69 cover only the Medical-Dental Division and the new General Support and Systems Support Divisions. The net sales in the new divisions were overestimated in the initial apportionment and were revised downward in three reapportionments in March, April and June. The authorized obligations were sharply reduced in March following the midyear review, but a large part of the reduction was restored in April and June. For these divisions, the actual sales and obligations were considerably lower than the approved program, but the net investment increase of $27 million was substantially the amount recognized in June. At the time of the midyear review a net investment reduction of $259 million in these divisions had been programmed and was later deferred to be, in effect, a part of the reductions planned for FY 70 and FY 71. The other divisions actually realized greater sales than were initially programmed, with substantially the same obligations in total, so that a net investment reduction of $99 million occurred during the year. The Air Force Stock fund as a whole reported a net investment reduction of $72 million for the year. In FY 70, exemption of the Medical Dental Division from apportionment became effective.

TABLE B-4

AIR FORCE STOCK FUND PROGRAMS
(In Millions of Dollars)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1965				
In FY 65 Budget		1381	1375	(Dec 1963)		1355	1349
1	8 May 64	1344	1358	11 Jun	18 Jun	1344	1349
2	X	X	X	30 Sep	X	1344	1355
In FY 66 Budget		1363	1367	(Dec 1964)		1363	1368
X	17 Feb 65	1349	1342	12 Apr	X	1349	1342
3	6 May 65	1345	1360	28 May	3 Jun	1345	1360
Actual						1346	1357
			Fiscal Year 1966				
In FY 66 Budget		1380	1361	(Dec 1964)		1380	1361
1	6 May 65	1358	1364	8 Jun	10 Jun	1365	1357
2	14 Oct 65	1365	1357	18 Oct	21 Oct	1365	1357
In FY 67 Budget		1440	1452	(Dec 1965)		1438	1447
3	16 Feb 66	1439	1455	7 Mar	10 Mar	1428	1444
4	7 Apr 66	1428	1444	14 Apr	18 Apr	1428	1444
X	4 May 66	1430	1437	27 May	X	1418	1424
Actual						1424	1465
			Fiscal Year 1967				
In FY 67 Budget		1509	1519	(Dec 1965)		1511	1524
1	4 May 66	1535	1555	30 Jun*	1 Jul	1147	1160
2	18 Oct 66*	1147	1160	24 Oct*	27 Oct	1147	1160
*In FY 68 Budget		1565	1601	(Dec 1966)		1548	1584
3	10 Feb 67*	1194	1216	28 Feb*	7 Mar	1194	1216
4	15 Feb 67	1572	1607	30 Mar	4 Apr	1572	1604
5	24 May 67	1580	1649	31 May	6 Jun	1580	1649
6	14 Jun 67	1580	1661	19 Jun	21 Jun	1580	1661
Actual						1647	1693

*Not for full fiscal year; represents nine months program

TABLE B-4 (Continued)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1968				
In FY 68 Budget		1689	1693	(Dec 1966)		1626	1630
X	24 May 67	2478	2690	8 Jun	X	2478	2542
X	Jun 67	1769	1718	1 Jul	X	1769	1695
X	?	1769	1718	?	X	1769	1718
1	20 Oct 67	1806	1760	27 Oct	13 Nov	1806	1755
In FY 69 Budget		1810	1904	(Dec 1967)		1776	1865
2	16 Feb 68	1799	1926	29 Mar	3 Apr	1799	1926
3	28 May 68	1866	2002	Returned			
X	X	X	X	19 Jun	X	1866	1991
Actual						1924	2065
			Fiscal Year 1969				
In FY 69 Budget		3742	3492	(Dec 1967)		3604	3355
1	28 May 68	363[illegible]	3488	19 Jun	8 Jul	3627	3375
In FY 70 Budget		3590	3520	(Dec 1968)		3503	3350
2	4 Mar 69	3503	3350	19 Mar	24 Mar	3503	3350
3	22 Mar 69	3418	3370	17 Apr	28 Apr	3431	3333
4	4 Jun 69	3415	3354	12 Jun	19 Jun	3415	3354
Actual						3360	3288
			Fiscal Year 1970				
In FY 70 Budget		3952	3745	(Dec 1968)		3864	3592
1	26 May 69	3640	3635	20 Jun	[illegible] Jun	3640	3226
In FY 71 Budget		3412	3074	(Dec 1969)		3352	3032

6. DEFENSE STOCK FUND

a. Table B-5 presents the aggregate program for the Defense Stock Fund.

b. The program initially apportioned for FY 65 was increased in relatively small amounts three times between January and April 1965. Another reapportionment in June increased the commitment authority. As sales increased during May and June with escalating demands, informal approval was given by OSD to incur additional obligations against the commitment authority. At the end of the year, actual net sales were up $68 million from the estimates in the budget review in the second quarter and actual obligations were up $129 million.

c. The initial apportionment for FY 66 reflected the level of sales apparent in June 1965 and the inventory drawdown which was planned in the pre-Vietnam period. Large program

TABLE B-5

DEFENSE STOCK FUND PROGRAMS
(In Millions of Dollars)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1965				
In FY 65 Budget		1856	1856	(Dec 1963)		1772	1628
1	5 Jun 64	1811	1671	11 Jun	24 Jun	1811	1671
2	21 Sep 64	1811	1671	23 Sep	29 Sep	1811	1871
In FY 66 Budget		1808	1727	(Dec 1964)		1808	1697
3	7 Jan 65	1808	1734	11 Jan	18 Jan	1808	1734
4	2 Mar 65	1846	1779	4 Mar	17 Mar	1846	1779
5	8 Apr 65	1826	1804	14 Apr	20 Apr	1828	1781
6	26 May 65	1826	1781	2 Jun	8 Jun	1826	1781
Actual						1876	1828
			Fiscal Year 1966				
In FY 66 Budget		1805	1818	(Dec 1964)		1805	1874
1	3 Jun 65	1909	1757	7 Jun	11 Jun	1909	1757
2	25 Aug 65	2418	2631	10 Sep	15 Sep	2276	2307
3	23 Sep 65	2278	2307	8 Oct	12 Oct	2276	2307
4	17 Nov 65	2499	2793	19 Nov	28 Nov	2499	2793
In FY 67 Budget		2666	3207	(Dec 1965)		2884	3118
5	29 Dec 65	2664	3138	10 Jan	17 Jan	2684	3138
6	11 Feb 66	2937	3805	24 Feb	3 Mar	2937	3699
7	30 Mar 66	2937	4686	8 Apr	8 Apr	2937	4274
8	11 May 66	2971	4274	12 May	19 May	2971	4274
9	31 May 66	2864	4274	3 Jun	7 Jun	2864	4274
Actual						29[illegible]3	4246
			Fiscal Year 1967				
In FY 67 Budget		2851	2664	(Dec 1965)		3003	2893
1	15 Jun 68	4278	3402	30 Jun*	1 Jul	3210	2973
2	21 Sep 86*	3210	2973	27 Sep*	5 Oct	3210	2973
3	19 Dec 86*	3093	3734	29 Dec*	3 Jan	3093	3734
In FY 68 Budget		4508	5130	(Dec 1966)		4396	4588
4	18 Mar 67	4096	4484	30 Mar	4 Apr	4096	4484
Actual						3976	4310

*Not for full fiscal year; represents nine months program.

TABLE B-5 (Continued)

Serial No.	Date	Service Request Net Sales	Service Request Obligations	OSD/BOB Approved Date OSD	OSD/BOB Approved Date BOB	OSD/BOB Approved Net Sales	OSD/BOB Approved Obligations
			Fiscal Year 1968				
In FY 68 Budget		4577	5661	(Dec 1966)		4355	4150
1	19 Jun 67	4267	3542	30 Jun	30 Jun	4267	3213
2	15 Sep 67	4267	3562	28 Sep	11 Oct	4267	3562
In FY 69 Budget		3810	3446	(Dec 1967)		3500	3100
3	X	X	X	7 Feb	13 Feb	3500	3100
4	X	X	X	21 Feb	21 Feb	3500	3150
5	X	X	X	7 Mar	8 Mar	3515	3157
6	12 Mar 68	3741	3434	22 Mar	27 Mar	3722	3379
Actual						3779	3319
			Fiscal Year 1969				
In FY 89 Budget		3899	3865	(Dec 1967)		3600	3265
1	12 Jun 68	3722	3283	29 Jun	8 Jul	3722	3183
2	X	X	X	17 Jul	22 Jul	3730	3191
3	19 Sep 68	3737	3290	30 Sep	8 Oct	3737	3290
In FY 70 Bud[illegible]		3871	3553	(Dec 1968)		3825	3459
4	12 Dec 68	3825	3459	23 Dec	30 Dec	3825	3459
5	X	X	X	22 Apr	28 Apr	3625	3259
Actual						3536	3178
			Fiscal Year 1970				
In FY 70 Budget		3758	3625	(Dec 1968)		3742	3544
1	13 Jun 69	3624	3325	23 Jun	26 Jun	3624	3325
2	3 Oct 69	3513	3150	16 Oct	21 Oct	3513	3150
In FY 71 Budget		3394	3086	(Dec 1969)		3208	2815

augmentations were then approved in September and November as escalating requirements were identified. Reapportionments processed in January, February, and April amounted to relatively large program increases. Two more reapportionments in May and June provided additional commitment authority. By the end of the fiscal year, the actual net sales of $2,923 million were $1,014 million higher than in the initial apportionment program and actual obligations were $2,489 million higher. The actual net investment increase for the year was $1,323 million.

d. In FY 67 the initial nine months apportionment was revised at the end of December to provide a substantial increase in obligation authority, including $200 million for augmentation of mobilization reserve stocks. The reapportionment to cover the full year was made at the end of March. Because demands and sales in the last half of the fiscal year failed to reach the levels projected in the budget review during the second quarter, the obligation authority

authorized was not fully used. The actual net investment increase of $334 million during the year, however, exceeded the $192 million increase planned in the Budget.

The initial apportionment for FY 68 in June 1967 reflected a higher sales estimate but a substantial inventory drawdown, based on the lower demand levels being experienced and the estimated extent to which materiel hand and on order could be reduced, including a reduction related to Project 683. Increased obligation authority was provided in September, but a reapportionment in February based on the fall budget review took away an even larger amount. Small increases in obligation authority were provided in reapportionments later in February and in early March, before a further adjustment in March recognized that both sales and obligation requirements had been significantly underestimated. At the end of the fiscal year, with the higher sales, the actual net investment reduction was $460 million, compared to a $400 million reduction in the Budget.

e. The initial apportionment for FY 69 reflected total sales at the level for the preceding year and a net investment reduction of $539 million. Reapportionments in July covered the addition of a program for Defense Atomic Support Agency and in September, the addition of a program for National Security Agency plus obligation authority to offset the larger than planned investment reduction in FY 68. A further increase in the program was made in December following the fall budget review. When it later became evident that demands and procurement requirements had been overestimated at that time, a reapportionment reducing the program was processed in April. The actual results at the end of the year were still lower and the actual net investment reduction for the year was $358 million. Of the total DSA inventory on hand at the end of the fiscal year, $797 million was stratified as long supply. Some part of this long supply stock had been received as capitalizations when items were transferred to DSA for management between 1962 and 1969. Some part also resulted, however, from the large net inventory investment increased made in FY 66 and FY 67.

7. DD FORM 1105 FORMAT

a. A copy of an approved apportionment is enclosed. Table B-6 illustrates the deficiencies of DOD Form 1105 (Figure B-1) to record the submission and approval of a Stock Fund financial program.

b. Lines 1 through 6 of the form represent a technical presentation of the amount available for apportionment. The amount is determined in a somewhat complex manner but has no significance, since line 6 is ordinarily forced to be equal to the amount apportioned on line 7.

c. The significant figures on the form are really limited to the apportionment on line 7 and the footnote which meets the statutory requirement for approval of the amount of sales anticipated in accordance with 10 U.S.C. 2210(b).

d. By transferring the date and signature blocks to a form more or less equivalent to the supporting schedule which is attached to the DD Form 1105, the Form itself would be made unnecessary. In fact, it is only in the supporting schedule that it is possible to identify what the financial program for any stock fund is or how it was determined.

TABLE B-6

DEFENSE STOCK FUND

INITIAL FY 1970 FINANCIAL PROGRAM

(Millions of Dollars)

Item	Sales	Obligation Authority	Commitment Authority	Total Funding
Clothing	710.0	611.0	110.0	721.0
Medical	231.0	209.0	40.0	249.0
Subsistence	1,240.0	1,237.0	75.0	1,312.0
General	476.0	431.4	110.0	541.4
Industrial	274.0	236.0	40.0	276.0
Construction	364.0	329.0	77.0	406.0
Electronics	289.0	232.0	45.0	277.0
Base Supply	19.0	19.0	–	19.0
DAS Total	3,803.0	3,304.4	497.0	3,801.4
DASA Total	8.8	8.8	–	8.8
NSA Total	12.3	11.8	.5	12.3
DSF Total	3,624.1	3,325.0	497.5	3,822.5

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE (OBLIGATION BASIS)	APPROPRIATION SERIAL NO.	FY	SHEET NO.	NO. OF SHEETS
	1	1970	1	1

AGENCY	APPROPRIATION TITLE AND SYMBOL
Department of Defense	DEFENSE STOCK FUND 97x4961
COMPONENT DEFENSE SUPPLY AGENCY	

DESCRIPTION a	AMOUNT ON LATEST DD FORM 1105 b	SUBMITTED BY COMPONENT c	REQUESTED BY SEC DEF d	ACTION BY BUREAU OF THE BUDGET e
AMOUNTS AVAILABLE FOR APPORTIONMENT				
1. NEW OBLIGATIONAL AUTHORITY - TOTAL				
A. APPROPRIATIONS REALIZED				
B. APPROPRIATIONS ANTICIPATED *(Indefinite)*				
C. OTHER NEW AUTHORIZATIONS				
D. NET TRANSFERS OF CURRENT YEAR AUTHORIZATIONS (+ OR -)				
2. UNOBLIGATED BALANCE - TOTAL		-844,000,000	-844,000,000	-844,000,000
A. BROUGHT FORWARD JULY 1		-744,000,000	-744,000,000	-744,000,000
B. NET TRANSFERS OF PRIOR YEAR BALANCES (+ OR -)		-100,000,000	-100,000,000	-100,000,000
3. REIMBURSEMENTS *(In Advance)* - TOTAL		4,666,500,000 a/	4,666,500,000	4,666,500,000 1/
A. EARNED OR RECEIVED				
B. CHANGE IN UNFILLED CUSTOMERS' ORDERS (+ OR -)				
C. ANTICIPATED ORDERS OR EARNINGS FOR REST OF YEAR		4,666,500,000	4,666,500,000	4,666,500,000
D. MEMO: ADJUSTMENTS INCLUDED ABOVE (+ OR -)				
4. RECOVERIES OF PRIOR YEAR OBLIGATIONS - TOTAL				
A. ACTUAL				
B. ANTICIPATED				
5. RESTORATIONS (+) AND RESCISSIONS AND OTHER WRITE-OFFS (-)				
6. TOTAL AVAILABLE FOR APPORTIONMENT		3,822,500,000	3,822,500,000	3,822,500,000
APPORTIONMENTS AND RESERVES				
7. APPORTIONMENTS - TOTAL		3,822,500,000	3,822,500,000	3,822,500,000
A.				
B.				
C.				
D.				
E.				
F.				
G.				
8. RESERVES - TOTAL				
A. FOR SAVINGS				
B. FOR OBLIGATIONS TO BE INCURRED IN SUBSEQUENT YEARS				
C. FOR OTHER CONTINGENCIES				
9. TOTAL APPORTIONMENTS AND RESERVES		3,822,500,000	3,822,500,000	3,822,500,000

a/ The anticipated reimbursements include estimated reimbursable sales plus $1,042.4 million anticipated in accordance with 10 U.S.C. 2210(b).

1/ The anticipated reimbursements include estimated reimbursable sales plus $1,042.4 million anticipated in accordance with 10 U.S.C. 2210(b).

SUBMITTED TO OSD *(Col c)*	
SIGNATURE *(Authorized Officer - DOD Component)*	DATE
(signed) Melvin H. Baker, Comptroller, Defense Supply Agency	13 Jun 1969

REQUESTED OF BOB *(Col d)*		APPORTIONED	
SIGNATURE *(Authorized Officer of Secretary of Defense)*	DATE	SIGNATURE	DATE
Don. R. Brazier, Deputy Assistant Secretary of Defense	Jun 23 1969	Ellis H. Veatch, Director, National Security Programs Division	6/26/69

DD FORM 1 AUG 61 1105 — REPLACES SF 132 FOR DEPARTMENT OF DEFENSE USE.

FIGURE B-1. APPORTIONMENT AND REAPPORTIONMENT FORM

APPENDIX C
LIST OF ACRONYMS AND ABBREVIATIONS

ADPS	automatic data processing systems
AFLC	Air Force Logistics Command
AID	Agency for International Development
AMA	Air Materiel Area
AMC	Army Materiel Command
ARVN	Army of the Republic of Vietnam
ASD(C)	Assistant Secretary of Defense (Comptroller)
AUTODIN	Automatic Digital Network
BOB	Bureau of the Budget
BTC	below threshold change
CFMA	Centralized Financial Management Agency
CG	Commanding General
CINCPAC	Commander in Chief, Pacific
CINCPACFLT	Commander in Chief, U.S. Pacific Fleet
CMC	Commandant of the Marine Corps
CNM	Chief of Naval Material
CNO	Chief of Naval Operations
COMSERVPAC	Commander, Service Force, U.S. Pacific Fleet
COMUSMACV	Commander, United States Military Assistance Command, Vietnam
CONUS	continental United States
CY	calendar year
DA	Department of the Army
DCIA	Deputy Comptroller - Internal Audit
DCP	Development Concept Paper

DCS	Deputy Chief of Staff
DDR&E	Director of Defense Research and Engineering
DGM	Defense Guidance Memorandum
DOD	Department of Defense
DODI	Department of Defense Instruction
DPM	Draft Presidential Memorandum
DSA	Defense Supply Agency
DSU	Direct Support Unit
FLC	Force Logistic Command
FM	financial management
FMF	Fleet Marine Force
FMFPAC	Fleet Marine Force, Pacific
FMSO	Fleet Material Supply Office
FSR	Force Service Regiment
FWMAF	Free World Military Assistance Forces
FY	fiscal year
FYDP	Five Year Defense Program
GAO	General Accounting Office
GNP	gross national product
GOA	General Operating Agency
GSA	General Services Administration
ICCV	Inventory Control Center, Vietnam
IF	industrially funded
I&L	installations and logistics
JCS	Joint Chiefs of Staff
JFM	Joint Force Memorandum
JLRB	Joint Logistics Review Board
JRDOD	Joint Research and Development Objectives Document
JSOP	Joint Strategic Objectives Plan
LCO-P	Logistic Control Office, Pacific

MACV	Military Assistance Command, Vietnam
MAF	Marine Amphibious Force
MAP	Military Assistance Program
MASF	Military Assistance Service Funded
MILCON	Military Construction
MILSTRIP	Military Standard Requisition and Issue Procedures
MLSF	Mobile Logistics Support Forces
MPM	Major Program Memorandum
NAVAIR	Naval Air Systems Command
NAVORD	Naval Ordnance Systems Command
NIF	Naval Industrial Fund
NRD	non-recurring demands
NRFO	Navy Regional Finance Office
OASD(I&L)	Office of the Assistant Secretary of Defense (Installations and Logistics)
OASIS	Army Materiel Command Ownership and Accountability of Super High Dollar Value Secondary Items in Oversea Theatre Depots
ODDR&E	Office of Director of Defense Research and Engineering
OFFS	Operating Forces Financial System
OPBud	operating budget
OPTAR	operating target
O&M	Operations and Maintenance
OMA	Operating and Maintenance, Army
OSD	Office of the Secretary of Defense
PACAF	Pacific Air Force
PACFLT	Pacific Fleet
PAO	Primary Action Officer
P/BD	Program/Budget Decision
PCD	Program Change Decision
PCR	Program Change Request

PDM	Program Decision Memorandum
PLA	Principle Logistics Agent
POM	Program Objective Memorandum
PRIME	Priority Management Efforts
PPBS	Planning, Programming and Budgeting System
RD	recurring demands
R&D	Research and Development
RUC	Reporting Unit Code
RVNAF	Republic of Vietnam Armed Forces
SCN	Shipbuilding and Conversion, Navy
SEA	Southeast Asia
SECDEF	Secretary of Defense
SE Asia	Southeast Asia
TOA	total obligational authority
TYCOM	type commander
U. S.	United States
USAF	United States Air Force
USARPAC	U. S. Army, Pacific
USARV	U. S. Army, Vietnam
USARYIS	U. S. Army, Ryukyus Islands
U. S. C.	United States Code
WESTPAC	Western Pacific
3S	A mechanized supply and financial system

APPENDIX D

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